INDIA'S FOREIGN TRADE

INDIA'S FOREIGN TRADE SINCE 1870

BY

PARIMAL RAY

M.A., PH.D.

With a Foreword by

SIR JOSIAH STAMP, G.B.E.

LONDON

GEORGE ROUTLEDGE & SONS, LTD.

BROADWAY HOUSE: 68–74, CARTER LANE, E.C.

1934

Thesis approved for the Degree of Doctor of Philosophy in the Faculty of Economics, University of London

PRINTED IN GREAT BRITAIN BY
MACKAYS LIMITED, CHATHAM

To

MY MOTHER

AS A TOKEN OF INFINITE GRATITUDE

CONTENTS

PART II

A GENERAL VIEW

CONTENTS

PREFACE

THE following study is the outcome of research, carried on by the writer at the London School of Economics and Political Science, during the academic sessions 1929–30 and 1930–1, and was intended for publication shortly thereafter. Uncontrollable circumstances stood, however, in the way of any earlier fulfilment of the desire. Meanwhile, important changes have occurred which detract from the topical character of some of the discussions and render passages here and there a little out of date; but care has been taken to add, wherever necessary, supplementary notes with a view to bringing the narrative as far as possible up to date.

The plan of the book is briefly as follows. Part I, which is designed as an introduction to the study, tries to show how the years from 1870 constitute a new era in the history of Indian foreign trade, describes the process of commercial transformation which was accomplished within that period by the development of mechanical transport and such other basic factors of progress, and discusses in broad outlines the outstanding features of this commercial development. Part II presents in four chapters a general view of the growth of Indian trade with its short-period vicissitudes and is devoted to a comprehensive examination of the various forces which at different periods shaped its course. In course of this review, it is noted that a great emphasis has always been laid in popular and in so-called scientific discussions on the part which currency changes have played in the history of this development. Indeed, old contentions and rebuttals and rejoinders have constantly reappeared on this subject with curious persistence. This has naturally led to a careful and exhaustive analysis in Part III of the influence, which frequent changes in the Indian currency system actually exercised on the course of foreign trade as a whole or on any

particular branch of it. In the treatment of this highly controversial theme, as indeed throughout the work, it has been the writer's sincere purpose to maintain the balanced outlook and to avoid saying anything which may have a special appeal to the partisan. Whatever views he has upheld, he has always taken great pains to substantiate in accordance with his own light and leading by solid facts and figures. It is hoped that this part of the discourse will to a certain extent assist a proper understanding of some fundamental monetary problems and will afford lessons of value to the commercial public in India.

The work does not, however, profess to be an exhaustive account of the growth of India's trade with foreign countries during the last sixty years. At least two volumes appear to be necessary for the purpose of an adequate treatment of the whole subject. The present volume is rounded off to form a study, independent and complete by itself, delineating what may be described as the outline picture. The author ventures, however, to claim that within its own limits the present work is as exact and as comprehensive as it has been in his power to make it. It is his intention to follow this up with a companion volume which will attempt to fill in the outline with a fair amount of detail and "to build up a picture in large blocks with some division into essential parts." Part of this work has already been done but its completion must await time and leisure.

The writer, it should be clearly understood, makes no pretension whatever that he is the first to deal with the modern developments of Indian Foreign Trade. It is probably as difficult to be first in any such field of investigation as it is to be in the pool of Bethesda. Nevertheless, it is true that there are comparatively few books extant on this subject of wide importance and absorbing interest. Besides, the existing treatises are either entirely fragmentary in character, or on the other hand confined in their scope to only one aspect of the whole. The modern history of Indian Foreign Trade, it is no exaggeration to say, has up till now remained buried in reports, official and non-official, in columns of periodicals, in trade returns and such other statistical

publications. Of such materials there is indeed no dearth; on the contrary, they are likely to embarrass the investigator by their profusion. The Annual Reviews of Trade of British India especially form an admirable guide for the present study; but quite apart from the fact that blue books are caviare to the general, it is quite plain that they constitute no more a history of Indian Foreign Trade than a mere aggregation of marble particles makes a statue. The present work, it is therefore believed, will fill a real need. No previous author, it may be repeated, has to his knowledge, traversed the entire ground of Indian Foreign Trade development during the last six decades in as systematic and thorough a manner as has been attempted in the following pages. Especially is this true of the section which deals with the interrelation between currency changes and trade development—a theme which has hitherto been only lightly touched upon in an altogether piecemeal fashion by various writers from time to time.

In conclusion, it is with a real and deep sense of gratitude that the writer acknowledges his great and lasting obligations to Professor Sargent for his valuable guidance and unsparing criticisms, though it must at the same time be added that he (Professor Sargent) is in no sense responsible for the conclusions reached or the opinions expressed in the book. To Dr. Anstey, of the London School of Economics, the author is indebted for much helpful advice. He takes this opportunity to express to her his grateful thanks. He desires also to acknowledge his indebtedness to Dr. Slater, who has read these chapters in manuscripts and has made some valuable suggestions and corrections. He is deeply grateful to Sir Josiah Stamp, who has kindly written the Foreword. His particular thanks are due to Dr. P. Datta for his assistance in connection with the drawing of the graphs and for his ungrudging response to every call for help. He is under obligation to the Education Department of the Office of the High Commissioner for India for sanctioning a grant in aid of this work. Special mention must with gratitude be made of the unwearied kindness and assistance which he has always received during his stay in England from Sir Philip

Hartog, late Vice-Chancellor of the University of Dacca and Member of the Public Service Commission, India, and from Mr. P. K. Dutt, Education Officer, Indian High Commissioner's Office, London. Lastly, it is his pleasant duty to record his appreciation of, and offer his sincere thanks for, the courteous treatment and numerous facilities received from the staff of the libraries of the School of Economics, the India Office, the British Museum, the India House, and the University where he has mostly worked. He should, however, specifically thank very heartily indeed Mr. B. M. Headicar, Librarian of the School of Economics, for the interest he has taken in the publication of the work.

P. RAY.

Dacca, India.
June, 1933.

FOREWORD

The economic interpretation of history has not yet found its true place in modern thought. Open to grave abuse and excess, it has on many occasions, and with some exponents, protested too much, for it is never the only key to any human situation, although it may lead into the largest ways and most fruitful fields. But a greater error is to suppose that there is any aspect of history or experience in which this key finds no door to unlock, and can contribute nothing to enlightenment and understanding.

The average western mind, eager or even pathetically anxious to understand the problem of India, is conscious that it must throw off its apparatus of accounts and balances, and abandon its standards of values, law and philosophy, in order to judge in an entirely new world of relatively fixed and often hardly intelligible ideas, in strange and scarcely credible religions, ethics, castes, political traditions, psychologies, racial antipathies—a world in which ordinary economic considerations are so small an ingredient in the problem as to be negligible in practical judgment.

But however prominent and dominating the non-economic elements may seem to be, it is clear on examination that economic conditions are powerful as producers of existing puzzles and deadlocks, and the only solutions that are likely to be valid are those which contain right ideas not only about the power of government and distribution of political authority, about religious tolerance and caste, but also about true economic betterment.

If an ordinary Englishman thinking on India thinks about trade and commerce at all, as problems to be solved, he generally does so in terms of famines and irrigation, or the currency value of the rupee, or else, from the Lancashire end, on India as a market for British goods, and the "growing

menace" of Indian industrialization or Japanese competition to the vested capital and labour interests of British foreign trade. He rarely thinks of India's foreign trade as a separate objective study, vital to the solution of India's problem. A recent book by Messrs. Vakil, Bose and Deolalkar on the *Growth of Trade and Industry in India*, does something to warn him of the incompleteness of his equipment. But even here, he is a little inhibited by clear assumptions that so far as the external trade is concerned, including British investment in India, it has all been bad for India and almost sinister in intention. From other sources he has realized that the over-rapid industrialization of such areas as Bombay City shows that indiscriminate application of Western methods, without the social background, may lead to unexpected evils. A competent study of India's foreign trade is a welcome addition—nay, an essential feature in the equipment—for a comprehension of the true India, past, present and future. If it can be secured in an attractive and readable presentation, free from obvious animus, yet sympathetic and intimately informed, without the awkward strangeness of a handling by a mind alien to its deeper meanings, scientific and thorough, then it becomes a boon and a blessing too.

For the aim of all this political and religious reform is found, on analysis, to be ultimately and largely economic betterment. Although the stimulus to larger foreign trade finds little place in the progressive economic programme of Mahatma Gandhi, and he thinks in terms of filling the idle half of the time of hundreds of millions of agricultural peasants by domestic or cottage spinning and weaving, and so raising their daily incomes from twopence to fourpence, it must be clear that no large improvements in the standard of life are possible without real *trade* development, properly so conceived. His programme includes wider irrigation, and such measures in sanitation and medicine in the villages as will defeat the worst aspects of disease. But India's population has increased rapidly enough as it is, and if straight Malthusian tendencies are unimpeded by social ideas, the relation between total numbers, the level of

subsistence, and the removal of the chief checks, through disease, upon expanding population, is a baffling one. The prevention of the multiplication of numbers until the new levels of life are again debased to the old is least likely to be achieved by individual and purely domestic development in trade, and more likely, though still obscurely, by getting India fairly into a stream of world commerce and ideas.

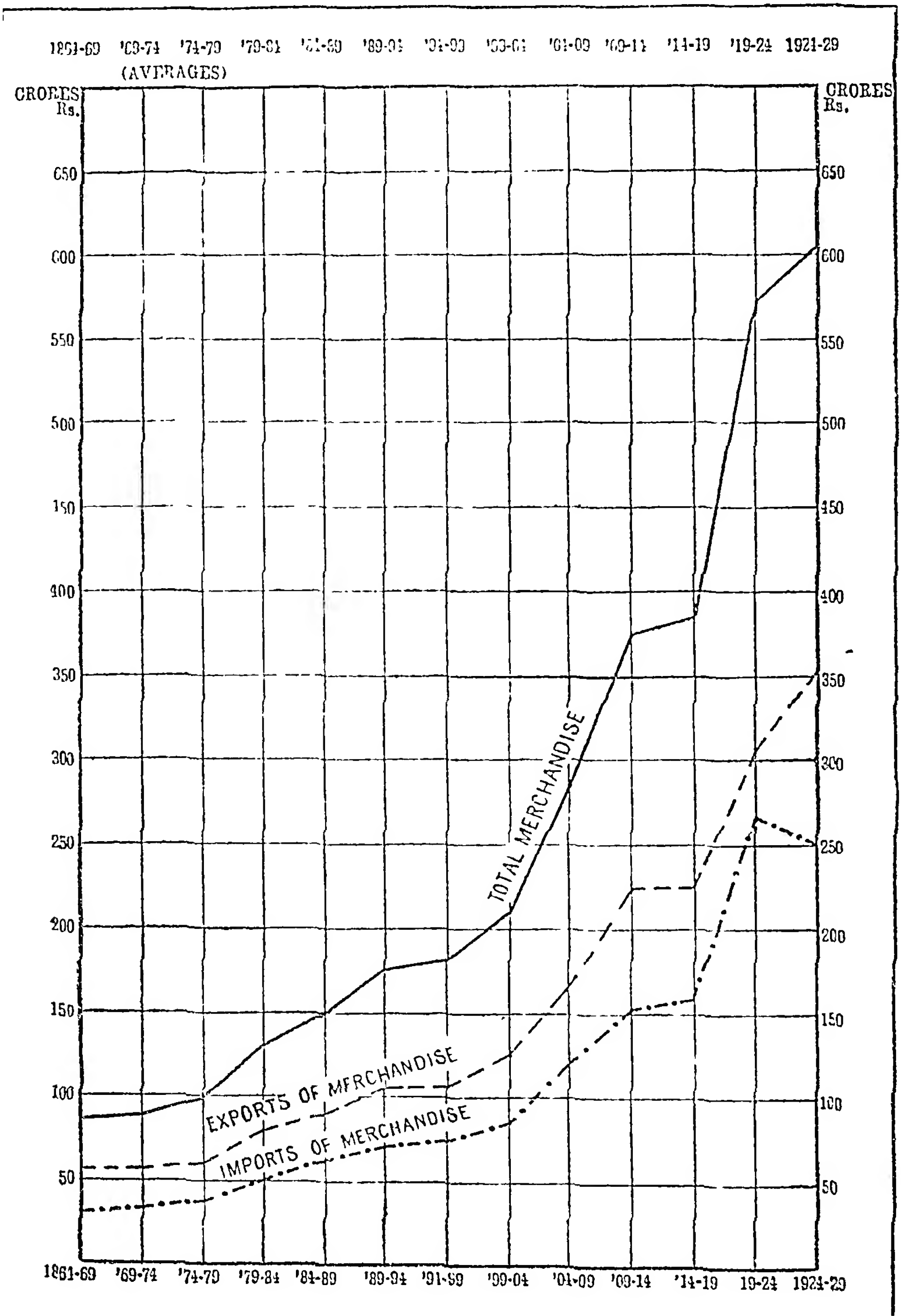
Nor is this merely an Indian problem in which we in England can take a detached interest, nor a Lancashire one in which we begin to have personal feelings, nor an Indian one, for India's sole concern. India counts, in the widest world sense. For, on a sudden, and at a point of psychological overturn which no man could foresee, the age-long hoarder of precious metals, absorbing them as a desert takes the water drops, began to " dishoard " on a scale which was of immense, though hardly recognized, importance to England in 1932, in enabling her to repay her American and French gold credits of 1931, and re-establish her credit; and continuing, may be of importance still to a gold befuddled world. India must be studied, and studied intensely with understanding, in her economic trade relations with the rest of the world, and this work from Dr. Ray is a most valuable introduction to that task.

J. C. STAMP.

Foreign Sea-borne Trade of British India.

During the sixty-five years (1864-9 to 1924-9). Quinquennial Averages.

(Private and Government.)



INDIA'S FOREIGN TRADE SINCE 1870

PART I

INTRODUCTORY

CHAPTER I

A NEW EPOCH OF COMMERCE

ANTIQUITY OF INDIAN COMMERCE

Antiquarian research has not yet fully lifted the veil behind which the origin of Indian commerce is shrouded in obscurity. Its remotest antiquity, however, even as far back as the earliest dawn of human history, is not open to the slightest doubt.[1] "For centuries, this commerce was carried on not directly between one country and another but through innumerable intermediate agencies, so that distant countries knew each other by their productions and the strange travellers' tales which grew in wonder as they passed from mouth to mouth between the east and the west."[2] The variety, extent and opulence of this commerce will no doubt appear insignificant when judged by modern standards, but in its own days it was a just object of admiration and wonder to the rest of the world. It falls beyond our scope, however, to tread the long extent of backward time and retrace this state of India's commercial splendour.

[1] Recent archæological discoveries at Harappa and Mahenjo-daro show that extensive trade existed in India some 2,000 to 3,000 years B.C.

[2] *Journal of the Society of Arts*, Vol. 26, p. 850.

DARK DAYS OF INDIAN COMMERCE

Ever since the discovery of the sea routes to America and India towards the fag-end of the fifteenth century, the centre of the commercial world shifted steadily and unmistakably from the east to the west. Still, as late as the beginning of the seventeenth century, India was "the respiratory organ for the circulation and distribution of moneys and commodities of the commercial system of the world; it was the sea wherein all the rivers of trade and industry flowed and thus profusely enriched its inhabitants."[1] Even "up to the eighteenth century the economic condition of India was relatively advanced, and Indian methods of *production and of industrial and commercial organization* could stand comparison with those in vogue in any other part of the world."[2] But before many years elapsed, India presented to the world a picture just the reverse of what we have portrayed above.

The disruptive forces of long years of anarchy and misrule, the perpetual ferment of foreign invasions and internecine warfare, which had followed the breakdown of the Moghul administration, left the country in a state of "economic nakedness." Out of the chaos into which the country was thus plunged, it was a gigantic task to build up from the very foundations the fabric of an ordered government During the hundred years of its rule, the Company had no doubt succeeded, by the establishment of a strong government and by a more or less satisfactory adjustment of tenures of land, in gradually restoring the first essential of economic progress—security of life and property. But even before the country began to recover from the disastrous consequences of the previous period of interregnum, she had been overwhelmed by a mighty conflicting force which shook her economic life to its very foundations.

The Industrial Revolution set in in England about the time when the Company gained its first foothold in India

[1] Balkrishna's *Commercial Relations between India and England*, p. 37.
[2] Anstey, *Economic Development of India*, p. 5.

as a territorial power. There fell on the country the full force of its impact and the old economic structure began to crumble down to pieces before the remorseless, rising tide of English competition, armed with the ever-growing mastery of the forces of nature and of technique.[1] As the old springs of her commerce were being dried up, she began to lose in rapid succession the export markets which she had hitherto supplied with her manufactures, chiefly cottons. By the end of the first quarter of the nineteenth century she was speedily losing ground even in her own home markets. In the then circumstances it was inconceivable that she could break new ground and rebuild her economic life on the new basis. Even the most strenuous efforts of the Government could not probably have performed this feat, though it must at the same time be admitted that not only was no such attempt made but there were thrown actual obstacles in the way. She was henceforward doomed to be a field for the supply of raw materials and an impecunious buyer of western manufactured goods.

The industrial revolution, which came first in Great Britain and then gradually spread itself to other western countries, was necessarily accompanied everywhere by an equally radical transformation of commerce, each acting and reacting on the other. It was the development of means of transport, first of roads and canals and finally of railways

[1] It is again unfortunately true that the English commercial policy of the time was so devised as to extend British manufactures at the expense of Indian goods. It will ever remain a blot on the fair name of the British nation that she had wielded the weapon of her political supremacy to fight a helpless competitor, committed to her own fostering care and protection. It is no justification to say that she had pursued a similar policy towards Ireland and her colonies as well, though it is often so urged, in apparent forgetfulness of the fact, that one wrong could never justify another. It is, however, equally reasonable to admit that the policy could have no more effect than merely driving the nail into the coffin. The ultimate consequence, in any case inevitable, was a mere question of time. It is also needless for our purpose to enter into the vexed question how far circumstances connected with India had paved the path for the Industrial Revolution in England. It is probable that they had added a spoke to the wheel of its progress; but to say that it was rendered possible by such factors only or even chiefly is to betray a woeful lack of historical perspective. To an impartial student of history, it is hardly necessary to emphasize the multiplicity of deeper forces, working from within, which could have brought about such an epoch-making event in history as the Industrial Revolution.

and steam navigation, which lay at the heart of such momentous and far-reaching changes in industry and trade. With improved and quick transport, the range and rapidity, the character and magnitude of commerce underwent a change which broke and totally eclipsed all past record. On the other hand, as the direct consequence of the social changes which the industrial and commercial revolution brought in its train, there was an ever widening circle of wants which an ever expanding trade and industry was called upon to cope with.

In India, where the old industrial system had been cast into the melting-pot, and thus the very bottom of her commerce had been knocked out, it may not have been possible to stem the tide of economic disintegration and help her on to her feet. But there was no inherent difficulty in the way of opening out the country and developing her latent commerce by a network of communications. Unfortunately, however, the constant preoccupations of the Company in wars of annexations and in suppression of internal commotion, its almost chronic financial difficulties, but, above all, its absence of broad outlook prevented it from any serious attempt to undertake the task. While, therefore, England, followed at a distance by other advanced western nations, was marching forward towards a world economy characterized by world production and world exchange, India was merely marking time. She continued to be, till the very last days of the Company's rule, nothing but a mere geographical expression, consisting of "long chains of isolated, self-sufficient villages," inhabited by people with ice-bound indifference to new ideas. Absolutely speaking, the total volume of Indian commerce had not actually receded even during these dark days of her history. On the contrary, over a large number of years, it had even shown some slight progress. But relatively to the rest of the world, India presented during those days a contrast no less striking than the West in her times of barbarity bore to the resplendent commerce of the Orient.

In the midst of such disheartening circumstances one was apt to forget all about India's past and to become prone to

pessimism about her future. If, indeed, it were possible to transport ourselves back to the days when in 1813 the case for freedom of commerce in India was undergoing scrutiny before the bar of British Parliament and public opinion, we would have been faced with a formidable array of apparently cogent arguments, sceptical of any future development of Indian commerce beyond the limits which it had already reached. But in the midst of such counsels of despair there was also to be heard the clear, hopeful voice of one man, more far-seeing than the rest, who had caught the glimpse of the silver lining behind the thick clouds of darkness. "But what shall we say of those," exclaimed Lord Grenville in 1813, "who deny the possibility not of opening new sources for the commerce of mankind, but of enlarging its present channels? Who tell us that the trade which we now carry on with India must in all future time be limited to its actual amount? . . . With full and confident assurance may we repel these idle apprehensions. By commerce, commerce will increase, and industry by industry. So it has ever happened, and the great Creator of the world has not exempted India from this common law of our nature. The supply, first following the demand, will soon extend it. By new facilities, new wants and new desires will be produced. And neither climate, nor religion, nor long established habits, no, nor even poverty itself, the greatest of all present obstacles, will ultimately refuse the benefits of such an intercourse to the native population of that Empire. They will derive from the extension of commerce, as every other people has uniformly derived from it, new comforts and new conveniences of life, new incitements to industry, and new enjoyments in just reward of increased activity and enterprise."[1] It was more than half a century since these prophetic words were uttered that the world witnessed the beginning of the real fulfilment of the prediction.

THE ADVENT OF THE NEW ERA

From 1870 a veritable new era of commerce set in. If from the threshold of the 'seventies we look backward and

[1] Hansard, Vol. XXX, p. 739.

then forward, we at once see that the foreign trade had then for the first time reached a high-water mark at all comparable to present figures and it had further entered into phases of striking change in many important respects. The new epoch was the direct outcome of a variety of agencies, which in the previous decade were brought to bear upon the commercial development of the country. Simultaneously, there was also a rare consilience of some favourable circumstances which had accelerated the process. A study of the course of commerce since and after this period undoubtedly constitutes the most notable chapter in the economic history of India of the last sixty years.

SALIENT FEATURES OF INDIA'S COMMERCIAL DEVELOPMENT

Broadly speaking, the course of India's commercial development during this period is characterized by three main tendencies, which mark it out as an epoch entirely distinct from the past.

(*a*) *Vigorous growth.*

In the first place is to be noted the remarkable expansion which began from about this time. Intermediate setbacks were not, of course, altogether unknown, but on the whole the trade gathered momentum from decade to decade and exhibited a most wonderful vitality even in the face of not infrequently recurring adverse circumstances. From an annual average of 99,14 lakhs of rupees during the quinquennium 1869-70 to 1873-74, the total value of trade, including treasures and Government transactions, reached Rs. 66,460 lakhs during the quinquennium, ending 1927-28. Within the entire period of less than sixty years the aggregate value of trade had thus multiplied almost sevenfold. The corresponding figures during the quinquenniums of the two decades from 1839–40 to 1859–60 were Rs. 24,70 lakhs, Rs. 29,20 lakhs, Rs. 35,87 lakhs and Rs. 52,70 lakhs respectively. The following table sets forth the rate of decennial progress of the total value of trade from 1869–70 :

Percentage increase of the decade 1879-80 to 1888-9 over the previous decade	46·1 %
Percentage increase of the decade 1889-90 to 1898-99 over the previous decade	29·9 %
Percentage increase of the decade 1899-00 to 1908-9 over the previous decade	44·7 %
Percentage increase of the decade 1909-10 to 1918-19 over the previous decade	49·3 %
Percentage increase of the decade 1919-20 to 1928-29 over the previous decade	51·1 %

The expansion of the actual volume of the trade was not, however, commensurate with this growth of value, but was nevertheless real and quite remarkable, too.

(b) *Change in the character of traded goods.*

The second outstanding feature, which must strike even a superficial observer, is the change that has come in many respects in the character of commodities which enter into the external trade of the country. The change, however, is most conspicuous on the side of exports. Yet a less superficial examination will reveal that even in regard to imports there have been going on all through the period a chain of diminutive changes which, when considered each by itself, may not be important enough to be perceived but are cumulatively of too pronounced effects to be ignored.

EXPORTS

First, as to exports. Gibbon, it is well known, had characterized " the objects of oriental traffic as splendid and trifling." While bearing in mind that it was a view of oriental commerce as seen through the perspective of a more advanced and scientific age, we may, however, at the same time generally admit, without taking the " mordant aphorism " too literally, that it was and continued to be a more or less true description of Indian trade up to the commencement of our era. It was during the period under review, as on no previous occasion, that the most direct lie

was given to the statement. For, even as late as 1858, "India was chiefly known as a dealer in drugs, dyes and luxuries."[1] It was from the commencement of the present epoch that she entered on her career as "one of the largest merchants in the world in food-grains, fibres and other great staples of universal consumption."[2] Indeed the first true beginnings of the great development of nearly all the staples of her export trade, jute, wheat, cotton, oilseeds and tea, commodities which nowadays figure so conspicuously in the world's markets, are to be traced from about this date. While new and profitable crops thus began to come more and more into prominence, the old historic products, such as drugs and dyestuffs, spices, oils, sugar, silk and saltpetre, had begun to languish, and were, within a short space of time, thrown into insignificance by the importance of the newer staples. Opium and indigo continued indeed for some time more to figure prominently among exports; but even then, while articles of more recent origin were making rapid strides, they were merely holding their own. Before long they too began to retreat before growing competition and ultimately sank into comparative obscurity.[3]

IMPORTS

Coming to imports, what strikes us most is the overwhelming flood of motley goods of European manufacture which from the commencement of the period under review began to pour into India. Quite apart from the increased penetration into formerly isolated markets of the few simple articles of imports, such as cotton manufactures and sugar which were already familiar objects of consumption among the masses, there was, as a mere glance at the tables of the chief articles of import cannot fail to show, a gradually increasing supply from abroad of a wide range of articles of comfort and luxury, and of a large variety of cheap goods of everyday use. Some of the articles were indeed quite new, being conspicuous by their absence in the former

[1] *J.S.A.*, Vol. 41, p. 337. [2] *Ibid.*

[3] The loss of the opium trade was due chiefly to the convention of the British Government with China.

period. Some again, though not wholly unknown in previous days, existed merely in name, being imported in trifling quantities solely for European consumption. Such articles, however, were now in large demand as they had gradually filtered down through the successive strata of Indian society and in not a few cases had at last reached the masses. If, therefore, they were not literally new imports, they were new at least to the vast mass of the indigenous consuming population and the scale on which they had consequently to be imported was altogether new. Of such commodities, some were imported to satisfy newly created wants with which the generations, that had gone by, were totally unfamiliar; but mostly they were in substitution for similar but dearer and inferior homemade goods.

Let us illustrate our point with some concrete examples. In 1857, a writer could remark, "The native landholder, and banker, and merchant, and judicial officer, in his articles of luxury, in his ornaments, and in his dress, to a large extent, uses still the products of his country; and in his silver and gold jewellery, in his shawls, in his furniture, in his lamps, his harness, his pleasure boat, his carriage, he commonly draws almost entirely from native resources, except in the Presidency towns. The country supplies the common trades with leather; ropes; brazen and iron cooking utensils; scales and weights; paper; toys, and many other articles of daily use."[1] But the growing figures of import during the period under consideration of apparel, of silks and woollens, of leather and leather goods, of cabinet-ware and furniture, of clocks and watches, of earthenware and porcelain, of glass and glassware, of paper, pasteboard and stationery, of toys and requisities for games, of carts and carriages and still more recently of motor cars and motor-cycles and of other accompaniments of modern civilized life, too numerous to specify, leave no room for doubt as to the sources on which the rich and the comfortable were increasingly depending for the supply of their domestic needs. More important still is to notice a similar change in the use of articles of daily necessity, affecting the lives of

[1] *Calcutta Review*, Vol. XXVIII, No. LVI, p. 375.

the rich and the poor alike. The almost universal adoption of matches in place of the " laborious use of living embers," the advent and spread of sewing machines, the substitution, fairly general, of collapsible cotton umbrellas for so-called leaf umbrellas, the rapid extension of the use of soap even in far-off villages in supersession of soap-nut and impure fuller's earth, and, to a lesser extent, the replacement of potteries by cheap glass and chinawares, of brass and copper vessels by aluminium and enamelled ironwares and the steady invasion of " foreign tobacco made up in neatly packed cigarettes " against the " unclean and unsavoury Indian compound " are the striking occurrences of the period. It was also from the commencement of the present period that the vegetable oils and the vegetable dyes began to feel the competition of their mineral substitutes till at last before many years elapsed kerosene oil had " spread over the length and breadth of the land " and the indigenous dyes had almost been completely superseded. Even this tediously long enumeration by no means exhausts the list of new or newly used imports.

It is in this widening of the range of imports, as marking a departure from the old immemorial habits of the native population, that the new era stands out in sharp relief against any preceding period of Indian commercial history. In considering the imports of this period emphasis is often laid on the inundation of our markets by foreign manufactures and its destructive effect on the old village economy. It is necessary, however, to point out here that this, far from constituting any new feature of the period ensuing from 1870, was, so far as it went, a continuation of a process long begun. If anything, it was during the period under present consideration that we discern on the contrary the first conscious and organized effort on the part of India so to readjust her economic life as effectively to counteract the unhindered operation of the above tendency. From a close study of the imports themselves—from the steady influx of copper, iron and steel, and of machinery and mill-work, for instance—we obtain unmistakable evidence of the coming in of the new economic order full of hope and promise for the

future. This, however, leads us to the consideration of a subsidiary but most welcome feature of the commercial history of our period. Before we go over to it, as we intend to do presently, let us once again emphasize here in the end what we stated at the very outset of this paragraph. The distinctive trait of the present *régime*, when we regard imports, is not to be sought in the fact as such of the incursion of manufactured goods from abroad. Truly speaking, it is to be found in the growing diversification of such imported commodities, as symptomatic of a change in the traditional mode of Indian living. It is this which, so far as imports are concerned, forms the distinguishing mark of the period under review and sharply divides it from the years immediately preceding it.

ORIENTATION IN A NEW DIRECTION—ALTERED RELATIONS BETWEEN EXPORTS AND IMPORTS OF RAW AND MANUFACTURED GOODS

It was observed how through the economic changes of the closing years of the eighteenth and the early years of the nineteenth century India was speedily transformed into a plantation for the production of primaries and a dumping ground for the finished products of the West. The emergence of new industries, organized on modern capitalistic lines, from about the middle of the nineteenth century applied for the first time a brake to this trend towards the progressive ruralization of India. By the early 'seventies, thanks to the successful development of industrial enterprise within the country, there was reimparted to India's external commerce the tinge of a new colour which had long faded. In plain language, with the establishment and growth of indigenous factory industries, manufactures once again began to bulk in a notable manner among Indian exports, while among imports they did not loom proportionately as large as in the past. Thus, the proportion of manufactured export to total exports, which was only 8 % in 1879, rose to 16 % in 1892 and went up to more than 22 % in 1907-8. In the same way the proportion of manufactured imports to

total imports fell from 65 % in 1879 to 57 % in 1892 and still further to 53 % in 1907.[1] Subsequent change in methods of classification prevents any comparison of the above figures with those of the following years. But the tendency is equally manifest. For instance, the manufactured exports formed 23·1 % of the total during the pre-war average of the five years 1909-10 to 1913-14 but 27·4 % during the post-war average of the five years 1919-20 to 1923-24. In 1927-28 they bore a ratio of 27·7 % to the total. Similarly the proportion of manufactured imports to total went down from a pre-war average of 77·5 % to a post-war average of 77·1 % and to 74·3 % in 1927-28.

Quite early in the fifties, the cotton industry had just made its appearance in the new garb and shortly afterwards the foundation had been laid of a steadily prosperous jute mill industry on the ruins of a once flourishing village craft. The products of the jute mills had almost immediately snuffed out from the home market the kindred things imported from abroad. And by 1870 the two new industries had, in an appreciable manner, begun to share the world's markets with their foreign rivals. The various other industries, since established within the borders of the country with varying degrees of success, coal, petroleum, iron and steel, wool, paper, match, cement, etc., have over a number of years worked more or less in the same direction, either, as more generally has been the case, by their resistance to swelling imports or, as in special instances, by participation in foreign markets as well. It may be true, and it is unfortunately true, that the establishment of new industries has not at all kept pace with the suppression of the old and on the whole the new industries themselves bear evidences of arrested development. It must be admitted to be equally true that in not a few cases the newly sprung up industries have not in the least entered into competition with imports

[1] The calculations are based on the usual grouping of imported and exported goods in official reports, though the classification of raw materials and manufactured goods during these years was not suitable for a correct survey of the situation. Reclassification on a more correct basis may slightly alter the actual figures this way or that but will not shake the broad general conclusion based upon them.

but have merely hastened the decay of indigenous handicrafts. Still, it is important to notice that the counteracting tendency at work has on the whole manifested itself in a greater proportionate increase of the export of manufactured articles than of raw materials and conversely in a greater proportionate increase of the import of raw materials than of manufactured goods, though of course no change has taken place in the absolute disproportion between the exports and imports of raw and manufactured produce. This is shown in the following table, which indicates roughly the extent to which this has actually occurred. The table, based on the official classification of raw and manufactured goods, is far from the ideal, especially during earlier years, for the purpose of a strictly accurate presentation of the truth. It must also be noticed that the figures in the table which compare the progress of the above two classes of imports and exports at various periods are to some extent accidental on the particular years chosen, though we have tried to avoid the difficulty by selecting as far as possible normal years of trade. Any such inaccuracies or defects do not, however, detract much from the force of broad inferences to be drawn from them. The table is therefore quite trustworthy as to the general truth of the picture which it purports to present, if not quite perfect as to the details of measurement.

TABLE SHOWING THE ANNUAL PERCENTAGE INCREASE OF EXPORTS AND IMPORTS OF RAW AND MANUFACTURED PRODUCE BETWEEN CERTAIN SELECTED DATES.

Percentage Increase of	Annual percentage increase.			
	Between 1879 and 1892.	Between 1892 and 1907.	Between 1906-7 and 1912-13.	Between 1912-13 and 1927-28.
1. Manufactured Imports ...	2·8	6·2	15·3	3
2. Raw Imports ...	6·5	8·5	26	6·6
3. Manufactured Exports ...	15	9·3	7·3	3·3
4. Raw Exports ...	3	3·8	3·85	2·5

It is, however, to be observed that the tendency of manufactured exports to develop faster than raw exports is not quite so strong as its counterpart, namely, the tendency of raw imports to outpace in their growth the importation of finished products. On the contrary, the former tendency, though it persisted till the end, seems, however, to have more and more lost its force as the years rolled on. As a matter of fact, if instead of taking 1927-28 we take 1928-29, the year for which the latest figures are available, and compare the growth of manufactured and raw exports from 1912-13 up to that date, we observe that the former progressed at an annual rate of 3·3 % during the period and the latter at the rate of 3·8 %, that is to say, manufactured exports fell behind raw exports in expansibility. The adoption since 1923 of the principle of discriminating protection which marks an important forward step towards the creation of a better balanced economic system in India should revitalize the moribund tendency in the export trade, and it is still more likely that it will further accelerate the already operating corresponding tendency in the import trade. It may thus conceivably in a not very distant future shake in a more decided manner the Indian commerce out of the grooves in which it has hitherto been accustomed to run. We must not, however, forget that the tariff system of a country is but one of many factors, and that probably not even the most important factor, of industrial development ; but it is to be hoped that protection, judiciously exercised, and coupled with an active industrial policy initiated by the Indian Government on the recommendations of the Industrial Commission of 1916-18, will set free in the country a fund of enterprise and energy which will ere long bring about the desired consequences. Whether the expectation will be realized, the future alone can say.

(*c*) *Change in direction.*

In the last place, we observe during the whole course of trade development of the period a slow but steady diversion of the stream of Indian commerce from its accustomed channel.

From the time Vasco da Gama doubled the Cape of Good

Hope, the sea-borne trade of India became in turn the prize of the strongest among the maritime powers of Europe till finally a series of military successes brought the palm into the hands of the English East India Company. Since the political ascendancy of the Company, there was for many years no open door to commerce in India and the whole of her trade was organized by that monopolistic commercial body primarily in its own interest. When eventually the trade was thrown open to free commercial enterprise in 1813, the English yet retained a virtual monopoly of it. The reasons indeed were not far to seek. All through the first half of the nineteenth century and even for some years after, England stood before the world as a nation unapproached for her industrial and commercial pre-eminence. Everywhere in the world's market, the supremacy of Great Britain was established without challenge, and, under the special circumstances prevailing in India, where the existence in those early days of discriminatory customs and navigation laws hindered the development of commercial intercourse with non-British countries, the predominance naturally amounted to a sort of monopoly. Moreover, the exceptionally favourable situation of Great Britain at the head of the Atlantic, naturally made her a great emporium of the trade between the East and the West, so that other nations found it convenient to offer their few specialities to, or buy their limited requirements from, India through this great entrepôt. It was not before the 'seventies that this lopsidedness of India's commercial intercourse was replaced by wider commercial relationships with the rest of the world.

With the opening of the Suez Canal in 1869, the advantage of England's geographical situation came to an end and she began to lose her re-export trade quite appreciably. By the early 'seventies the more progressive western nations developed into industrial powers and there began, on the one hand, an intense struggle for the world's available raw materials and, on the other, a keen competition for the disposal of the finished products in the neutral markets of the economically undeveloped countries. The increasing quantities of raw materials, which they henceforward required

for their expanding industries, rendered direct commercial connections with supplying countries both desirable and possible, while the need of energetically pushing their own wares in the face of close competition made this directness of trade relationship almost indispensable. India, where the last vestige of discrimination against non-British countries had been wiped off by 1859, proved to be one of the most important theatres of this commercial warfare. The quarters from which the brunt of the attack fell upon Great Britain were, however, shifted twice within the period covered by the present study, first towards the 'eighties from the Mediterranean to the North Sea and then since the world war from the North Sea to America and, to a not inconsiderable extent, to Japan. In any case, the severity of competition which Great Britain had to encounter did not show any signs of abatement, except for a short period during the War, when under the artificial conditions which then existed trade was diverted towards Great Britain; on the contrary, it became more intensified as time went on. The general effect of this contest expressed itself in a definite disposition towards a gradual reduction of the margin by which Great Britain predominated over her rivals. The tendency was more pronounced on the side of exports, where Great Britain had never had such a preponderating position as she undoubtedly claimed in the import trade owing to her exceptionally strong position in cotton piece-goods and next to it in iron and steel. The following table shows this very clearly.

TABLE SHOWING PERCENTAGE SHARE OF THE UNITED KINGDOM OF IMPORT AND EXPORT TRADES OF INDIA (MERCHANDISE ONLY, INCLUDING, HOWEVER, RE-EXPORT).

	Annual average from 1866-7 to 1869-70	Annual average from 1876-7 to 1879-80	Annual average from 1886-7 to 1889-90	Annual average from 1896-97 to 1899-00	Annual average from 1909-10 to 1912-13	Annual average from 1924-25 to 1927-28
Export	53·2	43·6	38·4	30·3	25·5	23·2
Import	73·7	81·4	78·2	68·7	62·3	50·2

For more reasons than one the above figures do not afford us a direct clue to the extent of competition between Great Britain and her rivals and we must to a certain extent discount them before we arrive at the true index. In the first place, we must make due allowance for a change in the basis of computation which makes the margin appear wider than has actually been the case. Secondly, it must not be forgotten that to a considerable extent it represents loss of entrepôt trade in which Great Britain had no more direct interest than in its employment of shipping and transport agents only.[1] Lastly, the fact that Great Britain retains a proportionately diminishing share of the growing trade of India does not necessarily signify that she is *pari passu* yielding the ground to her rivals, though it is not altogether denied that with the change of the world conditions on which her relative prosperity was built, it may to a certain extent have been the case. The manifest decline in the United Kingdom's quantum of Indian trade, it seems clear again, is partly to be accounted for by a different set of causes. And we need not even go very far to apprehend them. It is well-recognized that some at least of the important staples of Indian export play but second fiddle in the British market, and they are in fact more adapted to the requirements of less advanced countries. In regard to such commodities England has willingly left the available Indian supply more and more to her competitors, as the already existing alternative but more suitable sources of supply have in course of time expanded, or as new and better sources have in the meanwhile been explored. So far as imports are concerned, the foreign countries have largely exported cheap, meretricious articles, below the standard which the United Kingdom would ever care to produce. It is not necessary to appeal to induction to prove that they have not affected British exports in any appreciable degree but have mostly rushed into the breach which they themselves have created by thrusting back the village handicrafts. There is reason to

[1] It must here be observed that, even in regard to employment of shipping, the loss was only partial, for British ships still continued to be employed in the conveyance of Indian wares to Continental ports.

believe that India's growing demand for foreign goods has leaned more on the side of such cheap, attractive things than of solid, durable articles in which Great Britain excels—a phenomenon which is only partially explained by climatic conditions but more by her peculiar economic situation. But when all has been said that can be said, it remains true that there is yet a sufficient margin within which this competition against Great Britain has made itself increasingly felt. Especially since the War, when her present rivals had the advantage of Great Britain's war disabilities, it has threatened to assume a form which gives causes of anxiety and fear.

Such then are the salient features of commercial development of the modern era, covering a period of three score years.

WHY THE NEW ERA OF COMMERCE IS SAID TO HAVE COMMENCED FROM THE 'SEVENTIES

In conclusion, a few words of comment are probably needed to clearly explain why we date the beginning of the new era from the 'seventies. Time does not admit of rigid demarcation and it is no easy task to exactly delimitate starting or finishing points in economic history. It will, for instance, appear even from a cursory glance at Indian commercial statistics that the normal jog-trot of Indian foreign trade had begun to develop into a quick gallop even some years before 1870 and, strictly speaking, the trade may be said to have already leapt into importance in the later 'fifties. A subtle mind will also detect in preceding years the faint beginnings of that change in the character of staples of commerce which became so prominent in the following years. Why then, one may rightly ask, do we begin the narrative of the modern epoch of commercial progress from the commencement of the 'seventies? There are, however, cogent reasons for it and they are not far to seek.

It must, in the first place, be remembered that trade during the 'fifties and the 'sixties was to a very large extent

stimulated by passing and accidental causes such as the Crimean War and the American Civil War. If we make proper allowance for such factors, the real progress will show itself to be much less than appears on the surface. In the second place, it will be well to look upon this decade and a half preceding 1870 as essentially a period of transition, when the forces of progress were yet working out their effects. True, such factors of progress exerted their influence on the course of commerce as fast as they arrived, but it was not till 1870 that they had reached a decisive stage. For the railways, which more than anything else brought about the revolution in commerce, had not developed into a coherent system till about that date. Thirdly, it would be an anachronism to date the beginning of an era of commercial progress to any year antecedent to an event of such first-rate importance as the opening of the Suez Canal. Were it not for the Canal, neither the accentuated pace of evolution nor the striking change in the character of staples could have been anything like what it really was. "There can be no doubt that if it had been necessary to continue to send merchandise between India and England by the way of the Cape, the pace of progress would have been far slower than it has been, for the outlets for Indian products would have remained restricted by the impossibility of bringing many of them to the European and American markets."[1]

It is also interesting to note that the year 1870 was not merely the turning point of Indian commercial development but an important landmark in the world's history of commerce too. The "period of world economy which means world production, world distribution, world interdependence and world rivalry may be held to date from 1870, by which time railways and steamships were developed in England, France, Germany and the U.S.A. to a point where their means of communication were revolutionized."[2] Just at a time when India was in a very real sense closely linked up to world markets, the very fact that the year 1870 opened up

[1] *J.S.A.*, Vol. 52, p. 650.
[2] Knowles, *Industrial and Commercial Revolution in the 19th Century*, p. 182.

a new chapter in the commercial history of the world was by itself a strong additional justification for taking that same year as a new starting-point in her own trade history. For it was hardly to be expected that such a profound change in the conditions of the world's commerce should be without wide repercussions on the volume, composition and direction of her trade. It is not wholly on *a priori* grounds that we argue as above. It will be recalled that in one respect at least the effect was quite visible—the very distinct change in the direction of commerce from 1870 onwards was clearly and definitely the outcome of the newly-developed world situation, though it was partly to be accounted for by the geographical change produced by the Suez Canal.

Lastly, what strikes the most characteristic note of the economic evolution of India in modern times is, as we all know, a slow but sure process of industrialization. This transition in the economic life of the country which may be dated from the middle of the nineteenth century when the foundations of the jute and cotton mill industries were truly laid did not, however, as we pointed out in the preceding pages, impress itself in a tangible and indelible manner on the course of foreign commerce till about the beginning of the 'seventies. Judged, therefore, by this standard which is universally recognized as an infallible test of the modernness of any economic trend, the new epoch of Indian commerce must be said to commence from the opening of the 'seventies of the last century.

From all such considerations, the year 1870 may be taken, not unreasonably, as marking the commencement of the new era in the history of Indian foreign trade. The 'fifties, we may say, communicated the first impulse to it. The 'sixties served as a period of very active preparation for the great forward movement when the bright vista of commercial possibilities was only opening to the view. It was during the years which followed that their more and still more bountiful harvest was reaped.

CHAPTER II

Basic Factors of Progress

The commercial revolution began in India roughly about the commencement of the 'seventies of the last century. We described in the last chapter the general trend of the new commercial *régime*. The questions that now naturally arise in our minds are: What were the causes which so quickly transformed the course of commerce? Where was the fountain of the flow of progress? How was it sustained and still further developed in after years? In this chapter we shall attempt to seek answers to such questions.

FACTORS OF COMMERCIAL DEVELOPMENT

The volume of trade of any particular region depends, as everyone knows, on various internal and external forces. Succinctly we may say that it is chiefly determined by conditions affecting producers and consumers and the circumstances by which they are brought nearer together.[1] A general advance in a country's resources and methods of production, that is to say, a greater abundance of its natural resources, coupled with an adequate growth of labour and capital more effectively applied to turn them to account, is sure to be followed by an expansion of commerce. Again, the growing intensification and diversification of wants, which in a progressive community is the inevitable outcome of every man's desire to get on in life and to emulate each other, encourages the development of commerce not merely by broadening its scope directly but by adding fresh incentives to economic activities, which in turn pioneer the way for

[1] *Vide* Fisher, *Purchasing Power of Money*, Ch. V, Secs. 1 and 2, pp. 74-79.

new wants. Then there are the factors which tend to bridge the gulf between distant buyers and distant sellers and thus widen the circle of commercial operations. They may be either mechanisms such as railways, steamships and telegraphs which throw down the landmarks of isolation set up by Nature or contrivances such as are afforded by efficient monetary and banking systems to smooth and facilitate the course of transactions, or, on the contrary, they may represent well-devised economic policies which pull down all artificial barriers reminiscent of old and mediæval times and establish in their place freedom of trade and enterprise in every possible manner. Above all, there must prevail, as the first essential condition, an atmosphere of perfect confidence, happily described as the "soul of trade"—confidence begotten not merely by political security but by a sound, healthy economic system.

Of the various potent instruments of commercial progress narrated above, nothing during the last century and a half did more to revolutionize commerce in one country after another and, so, of the world at large, than development of the means of transport and communication. It acted and reacted on commerce in a hundred and one different ways. Besides the most obvious and direct effect which it produced on its range, its rapidity and its character, it simultaneously added a new impetus to every other ancillary agent of commercial development. Thus it undoubtedly brought within the reach of economic consumption, hitherto inaccessible supplies of national resources. On account of this, labour and capital became mobile as they were never before and consequently there was rendered possible a more effective application of such agents to the task of national production. Simultaneously, of course, there were at work revolutionary changes in the apparatus of production itself, multiplying manifold the productive capacities of nations. Nevertheless, it must be realized that unaccompanied by developed means of communications such improvements in the technique of production would have been altogether barren and they could not therefore have proceeded very far. It is again to be noticed how newly-developed means of

transport not merely afforded scope for production on an unprecedented scale but at the same time enlarged the volume and variety of needs by bringing about increased contacts among people of different regions. Further, they rendered the monetary and banking systems more efficient and extended their scope in a manner unthinkable in bygone times. All vexatious, local interferences, relics of a more sluggish age, were rendered unsuitable by the new economic *régime* which was brought into being and they were quickly done away with, though unfortunately the grip on national tariff barriers was in most countries tightened rather than relaxed. Not the least was to be observed the very valuable contribution which they made towards the solution of the problem of effective maintenance of peace and order over a wide stretch of territory or on boundless seas. In other words, the development of transport facilities was indeed the pivot on which the world's commercial development during the last century and a half hinged.

What was true of the rest of the world, was equally true of India. There, as in every other country, it was the revolution in means of communication which, by welding the whole of the landmass into a single economic unit and linking it up with the world at large, turned the course of commerce from what may well have been described as a string of pools into a rapidly flowing, magnificent river. In India, too, there were not absent other contributory causes of progress, and, as elsewhere, they received an energizing stimulus from improvements in means of communications and, like tributaries, mingled at different points their own stream with the copious flow which had its springs in the newly-developed conditions of transport.

THE BACKGROUND

Before we proceed to give an account of the actual process of this commercial transformation, it is necessary that we should once cast a preliminary glance at the background. For then and then only can we truly comprehend the vast and radical change in economic environment which was brought about during the period in question.

ROADS

"From the earliest times there is record of roads and wheeled vehicles in India."[1] But from the account of the European travellers and merchants of the seventeenth and eighteenth centuries, it appears that "the roads generally did not permit the free movement of commerce at all seasons."[2] The situation had not improved during the *régime* of the East India Company. For a very long time it had hardly recognized either the obligation or the expediency of systematic provision of means of communication. No doubt "here and there and from time to time, its paternal character cropped out pleasantly, in special grants for certain favoured localities, where the interests of the lieges happened to be strenuously represented." Thanks to the individual initiative of a few enterprising local officials, some progress was also made in certain isolated areas. But for an unusually prolonged period there was nothing to record beyond such partial and desultory efforts. Nor was there any symptom that a system of communication for all India would ever be undertaken.[3] It was still worse that for want of any systematic plan and provision for continuous upkeep, even the existing roads were allowed to fall into disrepair without "even a timely basket load of pounded brick or granite."

There was no doubt in existence a Public Works Depart-

[1] Report of the Road Development Committee, 1927-28, p. 3.

[2] *Ibid*, p 8.

[3] No better proof of this absence of proper appreciation of the need and importance of communications can be afforded than by quoting an opinion of so eminent a man as Sir Charles Metcalfe It was expressed as lately as 1829 when he was Member of Council "In the course of much travelling in the various parts of India," said he, "I have not been impressed with the belief that there is any general want of communication, proceeding from a want of roads It seems to me that there is commonly a sufficiency of communication according to the demands of the people" But if still more conclusive evidence be wanted, it is furnished by the following astounding incident In 1831 an almost completed road was suddenly stopped a few miles short of its natural terminus, a seaport. For "a full consideration of the difficulties opposed to the maintenance of roads in other places than in the immediate vicinity of large towns" had "satisfied Government (the Government of Madras) that the attempt should not be persisted in" Thus, after a considerable capital expenditure, even the made road was suffered in the absence of any provision for its repairs, to fall deeper and deeper into decay

ment, but the department " dignified by that name " was in fact one of the Military Establishments of the Government and practically occupied itself with the conservancy of military and civil buildings It was in 1854-55, virtually at the end of the Company's rule, that the organization of public works was placed on a proper and systematic basis by Lord Dalhousie. After this much-needed reform, construction of roads proceeded in a more methodical manner and their upkeep too was most satisfactory.

In 1858, at the time of the assumption of the Government of India by the Crown, there were therefore no more than 4,690 miles of first-class roads, and 24,715 miles of second-class roads to boast of.[1] In other words, with the exception of two or three main lines of road such as the Grand Trunk Road commenced in 1839 and a good many miles of road, more or less complete, in the North Western Provinces, in the Punjab and in Mysore, there were no roads worth the name. In a country of vast distances like India, they were, obviously enough, utterly inadequate, though it must at the same time be admitted that the hard and dry Indian soil offered during fair weather a surface over which a wheeled vehicle could pass without insuperable difficulty.

RAILWAYS

The Company was equally devoid of any initiative or interest in the matter of railways. With the perfection of the locomotive, railways had been promoted from a subordinate to the most important part in the internal system of communications in the western countries. In Europe, England had taken the lead in railway construction and even before 1850 she had developed her own system of railway communication. In 1832 had come the first locomotive in France and her railway age had begun about 1845 and the 'fifties had witnessed the completion of her original network. In railways Germany had been ahead of all Continental nations except Belgium, and by the 'forties railways

[1] *Journal of the Society of Arts*, Vol. XXI, p. 262.

had changed the face of that country. When the railway system was thus being developed in the west in one country after another, in India it was not even thought of. The question was first forced upon the attention of the Court of Directors in 1845, and during the railway mania of the 'fifties, considerable pressure of public criticism was brought to bear upon them for their apathy. But "prejudice, timidity and a dread of spending money beyond the usual limits of military and naval establishments, civil administration and jails," the idea that railways were not good for India, the bugbear of insurmountable physical impediments, and lastly financial difficulties stood in the way of any progress.[1] Years were wasted in protracted negotiations without any tangible results till at last, shortly before the outbreak of the Mutiny, the Authorities at Home were roused to more energetic action by the compelling arguments of Lord Dalhousie's famous minute despatched in 1853. Little wonder that up to the Mutiny railways were practically unknown in India but for a few miles from Bombay and from Calcutta and a third short line which had just been opened in Madras.[2]

RIVERS AND CANALS

It was to the unrivalled excellence of its waterways that Europe owed its pre-eminence in commerce before the railway era. There the natural waterways were again supplemented by construction of a system of canals, which in some countries began from about the end of the seventeenth century or the beginning of the eighteenth. Great Britain was in this respect behind her Continental neighbours but between 1760 and the close of the century she, too, had equipped herself with a network of canals, and this lay

[1] See Juland Danvers, "Indian Railways," *J.S.A.*, Vol. XXV, p. 264.

[2] *Journal of the Society of Arts*, Vol. 52, p. 649. Also *cf.* total number of miles in use in other countries at the following dates (compiled from Mulhall's *Dictionary of Statistics*):

		U.K.	*Continent.*	*U.S.A.*	*India.*
1840	...	800	800	2,800	—
1850	...	6,600	7,800	9,000	—
1860	...	10,400	21,400	30,600	800

at the root of her first phase of industrial and commercial revolution. In America the construction of canals had commenced from 1793. India, however, even to this day is singularly ill-equipped in respect of fluvial highways. The characteristic of most of her rivers is that at one moment they are " mere gravel beds, with here and there a rill of water," and, at the next, they will sweep along impetuously and will prove impassable. " Still less could they be used for profitable navigation for the transport of the produce of the country, for at the season of the harvest the rains ceased and the rivers began to fall and the beds of rivers were dry and impracticable for purposes of transit when harvest was made and the produce was ready to be transported to market."[1] Commercial navigation was therefore practically confined to the deltas and the valleys of the great rivers which form the natural waterways of the country, though the facilities afforded by innumerable small rivers, creeks, and backwaters all round the east coast were fully utilized by small native craft. As for canals, though it is now apparent that their construction is of problematical value outside the deltaic tracts, there had come into prominence towards the closing years of the Company's rule a school of opinion in favour of linking up the country by a network of canals ;[2] but very little had actually been accomplished.

[1] *Journal of the Society of Arts*, Vol. 3, p. 404.

[2] The name most prominently associated with this school of opinion was that of Sir Arthur Cotton, who had an extensive plan of canal communications all over India. A zealous advocate of cheap waterways, Sir Arthur put forward his scheme, not, however, to supplement communication by railways but as a rival to it. He envisaged for India a self-sufficient and independent means of water communication and unhesitatingly denounced other possibilities. To Cape Comorin or its immediate neighbourhood which curiously enough he selected as the best site for an Indian port, the west and east coast canals were to be extended, " the latter connecting all the great systems of navigation . . . under construction on the Toombuddra, Kistna, Godavery, and Mahanudee, with those in the valley of the Ganges, the Rajmahal, Soane, Grand Ganges, Delhi, and Sutlej works, up to the Punjab." (*J.S.A.*, Vol. XXI, p. 512.) To Sir Arthur's mind, " There is not one serious difficulty in the way of a steam-boat canal from Loodhiana to this, a distance of 2,700 miles ; and by the Godavery river and the Toombuddra it would open to Nagpoor and Bellary, and by the Burhamapootra to the confines of China ; and if, as I have suggested, the land line of 250 miles is opened to the Yangtse, the whole interior water communications of that country would be opened to it. Thus almost the whole interior of India and China might be opened to

MEANS OF LOCOMOTION

It was but in the fitness of things that the means of locomotion in the country were as pitiable as the conditions of communication were wretched. Only the few thousand miles of metalled roads were available throughout the year for traffic in bullock carts by stages of ten miles a day. The narrow unmetalled tracks, though quite tolerable in the dry season, became during the months of monsoon and for some time thereafter altogether unsuitable for any wheeled traffic. Except in the best cases they became impassable even to pack animals. In describing the means of communication as they existed in 1852-53, a writer in 1869 thus remarked with reference to such roads, " Indeed those men whom duty or dire necessity occasionally compelled to travel during the rains found, not infrequently, that their best chance of progress lay in leaving the line of road and struggling across the miry land alongside to avoid the rut worn by their predecessors."[1] Over the larger part of the rest of the country, which was roadless, merchandise had to be carried on the backs of bullocks, struggling miserably along their way, each with a load of 240 lbs. only. To-day it is inconceivable to think that the transport of raw cotton to a shipping port from the cotton tracts of the Central Provinces and Berar had to be effected in this manner over a distance of 400 miles. It was more than two or three months before the port was reached and during transit cotton suffered considerably in character owing to the damage done by the weather and by the gradual accumula-

this point, at a cost of transit not very different from that of ocean; probably less, if insurance is allowed for." (*Ibid.*)

The Utopian character of the project is obvious enough. As a component and integral element in a comprehensive system, water transport could doubtless claim a proper and abiding place. Sir Arthur's point of view would probably have received more sympathetic, if not the full, consideration to which it was entitled, were it not for the largely exaggerated emphasis he attached to it Thus, notwithstanding his great reputation and eminence as an engineer with a record of striking achievements in the past, his opinion did not prevail Instead he became merely the central figure of a heated and sterile controversy, described by a certain writer as the battle between the " Neptunist " and the " Vulcanist."

[1] *North British Review*, December, 1869, quoted in *J.S.A.*, Vol. 18, p. 568.

tion of dust and dirt. Not a year passed in which droves of cattle did not succumb on the way either from drought or from over-fatigue. Not infrequently, too, the carriers were overtaken by rains, and to their great disappointment they found their further progress stopped, or at any rate rendered difficult by the swelling tides of streams and torrents.

Where facilities for water transport existed, small, slow-moving boats were employed for the conveyance of merchandise from and to the interior. No sooner had the experiments with steam vessels achieved success in England and America between 1801-2 and 1812 than steamers began to make their appearance on many of the principal rivers of the world. As early as 1814 a writer was able to say that "most of the principal rivers in North America are navigated by steamboats." In Europe, too, it was taken up everywhere with great rapidity. Long before 1850 all large European rivers had their steam services. In India, however, except for some early abortive efforts, it remained unknown until a few years before the Mutiny, when a river service of small steamers was for the first time started on the Ganges between Calcutta and Allahabad.

The vital importance of communications as an essential part of commercial development requires no emphasis, yet such indeed were the facilities of communication in India. Add to all such inconveniences the risk of lives from gangs of marauders which infested both roads and rivers alike, and the not uncommon attacks of wild beasts, from which the roads were not immune. It was again the slowness of the methods of conveyance which made them more easy and helpless victims of these pests of the highways. If, however, in spite of such discouraging circumstances, stagnation was not written large in the figures of trade as should very properly have been the case, it was largely because India was especially fortunate in having some hereditary classes of sturdy carriers and traders, who ramified all over the country, travelling "from Bombay to Mirzapore, from Bundelkhand to Masulipatam." It was they who persevered, where others would have recoiled, and steadily pushed on with their trade undaunted by "the snows

and the rocky passes and the fierce mountaineers which confronted them in the north or damp and dark forest, the putrefying vegetation, the malarious exhalation, the pestilential swamps" which lay across their path in the midlands and in the south.

DIFFICULTIES AT THE PORTS

This, however, is not the whole story. If a trader had at last succeeded in face of such enormous odds in bringing down his produce to the coast, it was only to be confronted with a fresh crop of difficulties at the ports. The singular deficiency of natural harbours, caused by lack of sinuosities or indentations on her coast lines, and the consequent inadequate safety of shipping at the places serving as inlets and outlets for commerce did not constitute the only or even the chief difficulties. Not a single port had as yet any of the conveniences and facilities such as docks, wharves, jetties, quays, etc., with which they are so well equipped to-day.[1] Ships had to lie out in the open stream while the loading and unloading of cargoes proceeded in a most leisurely and inefficient manner with the aid of the most primitive appliances. When, however, the monsoon set in, all work was virtually brought to a standstill.

[1] Of the major ports of to-day, Bombay, though a magnificent natural harbour, continued until the middle of the nineteenth century "little more than a collecting centre for the smaller ports of the west coast and for the relatively small strip of land between the Western Ghats and the sea." It was only after the American Civil War that the port "emerged with its wharves and accommodation greatly increased and improved and its commercial potentialities unimpaired." Karachi, "a shallow, more or less land-locked lagoon" at the time of its occupation in 1839, continued till 1873 to be "merely an anchorage" where "all exports and imports by sea-going steamers had to be shipped and tended by means of country boats." "In Calcutta," observed a writer in 1853, "quays for the approach and use of shipping do not exist, neither are there any fixed landing stages, jetties or floating piers." "Up to the year 1868," remarks another, "the history of port improvements in the sense of appliances to facilitate the trade of the port is a history of projects and commissions of inquiry thereon Much was proposed but nothing done." As for Madras, it was but an open roadstead on the surf-beaten shore of the high sea, and speaking of it, Sir Arthur Cotton said in 1855, "The great port of Madras is not only at this moment without shelter for shipping but without any means of avoiding the surf, so that we are still using the very native surfboats that were found there a hundred years ago, and besides the enormous expense that is incurred in shipping goods, not a year passes without people being drowned in crossing the surf."

LONG SEA VOYAGE ROUND THE CAPE

Difficulties did not even end here. Last, but by no means the least, was the great inconvenience of the long sea voyage in sailing vessels, toiling slowly and uncertainly round the Cape. It generally took ten to twelve weeks to accomplish the voyage, while thirteen to fourteen weeks were not unusual. The uncertainty of this journey through one of the stormiest places of the world was as much a deterrent of commercial ventures generally as its expensiveness and duration were fatal to any trade in staples which were cheap and bulky or liable to deterioration during the protracted transit.

DILATORY BUSINESS METHODS FOR LACK OF SUITABLE MEANS OF TRANSMISSION OF INTELLIGENCE

We need also remember that these were the days when practical electric telegraphy, which fulfils so important a role in modern commerce and has indeed revolutionized its methods, was but in its first stages of development even in the advanced western countries.[1] In India it had not appeared till the closing years of the Company.[2] What, however, will appear very strange, though it is nevertheless true, is that even the facilities for correspondence through the medium of a well-organized postal system were absent for a long time. They first became available only in 1854, when the foundation of a really effective postal system was

[1] In 1836 Morse in America invented a method and apparatus which ultimately superseded all others, and within a few years it was so perfected that with some modifications in detail it has largely been used ever since. In the 'forties landlines were extended over the whole of Europe and submarine cables followed them in the 'fifties.

[2] In India construction of telegraphs was commenced in 1851 with a few miles of experimental lines in and near about Calcutta, and their success had stimulated their quick and wide extensions. By 1857 India was provided with telegraphic communication over a distance of 4,555 miles. The earliest experiment of Dr. (afterwards Sir) O'Shaughnessy in laying down the first 21 miles of telegraph lines as far back as 1839 is worth record, but only as an incident of mere antiquarian interest. The experiment was "far in advance of the views of the Board of the East India Company" and it was not until 1849, by which time telegraphy was a proved success in Europe, that we find any move made in India.

remained interspersed all over the country the numerous Native States, standing outside the reformed system and acting as great barriers in the way of free movement of goods.

OTHER ARTIFICIAL HINDRANCES

We have not yet exhausted our account of other artificial barriers which impeded trade at the time. At home there was pursued a narrow fiscal policy clogged with a vast number of export duties and characterized by differential customs according to the flag of ships and the nationality of goods. Abroad the entry of Indian goods was sturdily resisted by mercantilistic policies prevalent in most countries. It was, however, the order of the day to obtain commercial facilities in foreign markets through reciprocity treaties and although it was a fact that Great Britain largely entered into such treaties with other nations ever since the 'twenties and often used the Indian trade as a pawn in the game,[1] yet India herself was never allowed any share of the valuable concessions which were thus secured.

IRRIGATION

It is also necessary to state that artificial irrigation, the vital importance of which for the greater portion of India cannot be over-emphasized, did not receive any but very inadequate attention from the Company's administration. Though a few classic works stood to its record, yet it is a well-known fact that they were carried out in an intermittent fashion, at no time with a vigour commensurate with their surpassing importance. An indecision of opinion and action was very apparent in this as in every other branch of public works. The Company was on the whole reluctant to commit itself to any extensive scheme of state irrigation.[2] Its practice of providing for such projects out of current revenue prevented any regularity or continuity of work and, on the contrary, often resulted in considerable waste from suspen-

[1] See N. J. Shah, *History of Indian Tariffs*, pp. 78-80.
[2] *Imperial Gazetteer*, Vol. III, p. 328.

sion of valuable works already undertaken.[1] On the other hand, through long and continuous neglect even the old works were often suffered to deteriorate and sometimes to fall into desuetude. "To whatever part of the country we turn," reported the Commissioners on Public Works in Madras in 1852, "we find the vast majority of tanks, even in a good season, watering far less land than they once did, and far less than they could now irrigate, if kept in proper repair; and there is abundant evidence to show that if the existing tanks were restored to their original capacity or efficiency, a very high increase of cultivation and revenue would be the result."

It is thus apparent that partly from impediment set up by Nature but chiefly on account of the tardiness of the administrators of those days to pursue a forward policy and to profit by the lessons of advanced western countries, conditions in India till the end of the Company's rule were far from favourable for any commercial progress. We have elsewhere quoted figures as to the value of trade during the period from 1840 to 1860,[2] and if we now compare with them the annual average of the value of trade during the quinquennium 1834-5 to 1838-9, which was Rs. 18,64 lakhs, the comparatively small dimensions of trade in those days and the slowness which characterized its growth will at once become quite obvious. In view of the circumstances we have described above, this will of course cause no surprise. It must be equally obvious why the character of trade in all those days was so largely different from what it is to-day. The existence of any trade under such circumstances was quite out of the question unless it were in commodities which had large value in small bulk, could stand the stress of protracted transport, and were more or less monopolies possessing special demand in foreign countries.

[1] Read the Report of Proceedings in the Public Works Department during the official year 1860-61 for confirmation of the statement. After a description of the more valuable works suspended during the year for want of funds, the writer of the Report goes on to complain how appropriation which the Government of India has been able to make for public works has often fallen short of the actual requirements and how this intermittent system of construction of public works has caused injury and loss in a variety of ways. The Report forms Chap. VIII of the *Moral and Material Progress Report of India* for the year 1860-61.

[2] *Supra*, p. 6.

CIRCUMSTANCES WHICH BROUGHT ABOUT THE COMMERCIAL REVOLUTION

Then came the terrible cataclysm of 1857. Amidst and after an upheaval of this type when such imperfect communications, as were only recently established, were greatly disrupted, it might *a priori* be expected that there would be a setback of the clock of progress. But the contrary was in fact the case. The mutiny proved no less a turning point in the economic history of India, as it obviously was of the political. It was in the sphere of commerce, both internal and external, that there was the earliest and most tangible manifestation of the new era. The causes contributory to the commercial change had indeed followed each other in such rapid succession that it will be a pardonable exaggeration to say that the transition from the old order of things to the new was, as it were, a change in a pantomime.

Even before the Mutiny the advantages of rapid communication had been brought home to the Government during two or three political emergencies. The lesson of the Mutiny was too deep to be lost in any case whatsoever. A determined and vigorous attempt was now begun towards the rapid development of means of communication in every possible manner. Though the mainspring of the action was strategic, yet the needs of commerce had always to be kept in view.

In the first place, construction of railways began to be pushed on with great energy. By 1862 there were 2,460 miles of railway available for traffic, and in 1870, 4,915 miles.[1] Many of the lines, however, were still disjointed. By 1871, the system of trunk lines linking up the hinterland of each province with its chief port and the different provinces with each other was brought to completion. Thus was India provided with a tolerably complete network of main lines traversing all parts of the country, with a total length of 5,262 miles open to traffic.[2] If on a moderate

[1] Figures are from the *Review of Trade of India* for the year ended on the 31st March, 1886, Appendix, Table II, p. lxxiii.
[2] *Ibid.*

computation we assume ten miles on each side of it as brought within its reach, the total, served by the railway system, represented an area of 105,240 sq. miles.

The advent of the "powerful engines of commerce" was the most potent factor in breaking down in India, as in every other country, the old system of localized supply of local requirements. In the interior, new markets were opened up and new sources of supply were tapped, which had hitherto been outside the pale of commerce. The multifarious raw products of India, which in former years of bounty remained to rot on the ground, and her mineral products, lying dormant beneath the surface, were made available for commerce in a manner never before dreamt of. More and still more areas of land were brought within the range of profitable cultivation, and the way in which bulky products could now be carried over vast distances introduced a new element in the agricultural economy and reacted favourably on the efficiency of farming. For the first time in Indian history local specialization in particular crops suitable to their respective areas was rendered possible, and there was brought about a change from subsistence farming to the growing of commercial crops. Above all, the snort of the iron horse roused the drooping energies of the people, and the whole country was beginning to respond to the vast impulse which the introduction of railways gave to its enterprise. It was again the railways which rendered possible the growth of large-scale industries in the country, though the effect on cottage industries was nothing short of disastrous. *Pari passu* with the development of the railway system and supplementing its general tendency to consolidate India into a single economic unit, proceeded the construction of electric telegraph. There were set up in one single year after the Mutiny 2,000 miles of new lines, besides reconstruction of old lines destroyed. It was an evidence of the earnestness and rapidity with which the Government set itself to the task of transforming India from a mere geographical name to a truly consolidated unit.

Then in the nick of time came the Suez Canal. In 1869, when it was thrown open from sea to sea, the far-divided

portions of India were nearly spanned by the railway net and fairly linked up by wires. Looked at from the standpoint of India, the Canal would appear to be only a natural counterpart of the great opening out of her commerce. The effect of the digging of the Canal was to shorten the voyage[1] and bring her into closer contact with the great countries of the west. The true significance of the Canal lay not, however, in mere economy of time and distance. We are too apt to forget that an overland route *via* Suez and Cairo was for many years in existence and active operation. But from the very nature of the mode of communication, the shorter route could have profitably been used only by mails and goods of high value in small bulk. The real advantage of the Canal consisted in the fact that it secured the speed of the short route without the inconvenience of transhipment and expensiveness of land transport.

The opening of the Canal was twice blessed. Not only did it save time and distance and make for diminished risks and greater certainty, but it gave a greater impetus to the substitution of steam for uncertain winds in the navigation of seas.[2] Thus between 1873 and 1882 the increase of the world's steam tonnage had actually been three times as great as the diminution of sailing tonnage—a fact of all the more significance when it is borne in mind that a steamer makes on an average something like three voyages to every one made by a sailing ship.[3] The acceleration of the use of steamships did in its turn add considerably to the advantages arising from saving of time, distance and risks.

It was also a happy coincidence which, however, was not

[1]

	Distance *via* the Cape.	Distance *via* the Suez.
Bombay	11,500	6,300
Karachi...	11,200	6,100
Calcutta	13,000	8,000

—(*J.S.A.*, Vol. 18, p. 364.)

[2] The Canal could not be suitable for navigation by sailing vessels and it thus proved fatal to them The following were the chief reasons:—(1) Difficulty of the passage of a sailing vessel through the Canal without towing and the especial danger in the event of a gale or headwind. (2) Economic incapacity to bear the heavy tonnage dues. (3) Roughness of the Red Sea.

[3] *England and the Suez Canal*, by E. C. P. Hull, pp. 28-29.

merely fortuitous that the digging of the canal was coeval with extensive improvements in the world of steam navigation.[1] For, "without improvement in marine steamers the Canal would not have been of so much advantage, whilst without the Canal the steamers would not have been so useful."[2]

The easy means of communication which was thus thrown open between Europe and India was pregnant with significance from another point of view. There was a steady and growing influx of European, chiefly British, capital and enterprise as perhaps would never have been possible otherwise. With the advent of foreign capital and foreign enterprise, the abundant resources of India, hitherto untapped for lack of indigenous capital and enterprise, began to be more and more developed for the benefit of trade and commerce not merely of India herself but of the world at large.

There was a further consummation to this whole process of linking up the different parts of India with one another and of India with the rest of the world, when her telegraphic communication with the outer world was placed on a satisfactory basis. It was about 1855 that the question of telegraphic communication between England and India began first to take a definite practical shape. Enormous physical obstructions along the route together with political complications which often arose stood in the way of any rapid progress. However, perseverance was able to overcome all obstacles. At last, in the beginning of 1865, the first telegraphic connection between Europe and India was established with the completion of the overhead Turkish line *via* Constantinople. Almost simultaneously there was brought into operation another aerial route connecting England with India *via* Germany, Russia and Persia. Unfortunately, however, the land lines in those early years

[1] First, there was the screw propeller, which came in 1836, but was not generally adopted till the 'fifties. Then there was the substitution of steel for iron as the material for shipbuilding. Next came the increase of pressure in the boiler and the introduction of surface condensers, followed by the use of compound engines, which were recognized as a commercial success at the end of the 'fifties.

[2] *J.S.A.*, Vol. 24, p. 279.

were "wretchedly organized" and "hopelessly behind the requirements of the age." The delays to messages were a subject of "universal complaint," and it was felt that "an irregular service was worse than none at all." The remedy was at last found when in 1870 the cables were sunk to the bottom of the seas.[1] This "made trade brisk, by aiding a quick interchange of commodities; and profitable by preventing the accumulation of large stocks through the early information it afforded of the state of large markets; and rendered the trade safe, by strengthening the control by the Government of the foreign affairs of the state."[2]

It was as the cumulative effect of railways and telegraphs, of the Canal, steamships and cables that silently but surely a commercial revolution did in so short a space of time burst upon the country. Doubtless there existed other subsidiary causes which had helped the process of the transformation. Indeed, some of them had even come earlier and, as we shall presently see, more of such influences came to operate in the following years. Of such secondary causes, we have in previous paragraphs given hints of some, and it is unnecessary to attempt any detailed account of the rest. A word must, however, be said as to irrigation, which has since done so much to increase the exportable surplus of the country. Its progress was greatly facilitated by the acceptance from 1866 of the policy of financing productive public works by means of public loans, though for a time after the Mutiny attention was distracted to a certain extent from irrigation to extension of communications. Whatever the influence of irrigation and such other factors may have been on the subsequent development of commerce, the key to the whole commercial situation after 1870, let us not forget, is supplied by two factors or rather two groups of factors only, railways with telegraphs and the Canal in conjunction with steamships and cables.

Each successive decade in the coming years saw an

[1] By 15th March Bombay was in communication with Europe by cable. The cable from Madras to Penang and Singapore was opened on the 4th of January, 1871, and from Singapore to Hong-Kong on the 10th of June, 1871. The Australian cable to Madras was opened on 21st October, 1872.

[2] *J.S.A.*, Vol 42, p 217.

acceleration of the transforming process. While the old mechanisms of commercial equipment were continuously elaborated and improved, new aids to advancement were increasingly brought into being. Through extensions of the old systems and construction of new feeder lines to serve them, the railway net, for instance, was spread wider and wider till India came to possess at the end of 1926-27 a length of 39,049 miles.[1] Not only did the mileage of railways increase but there was simultaneously a steady reduction of the rates[2] charged for carriage of goods, and the movements of trade from and to the ports were especially stimulated by the particularly low and favourable rates which resulted from the competition of one rival railway system with

[1] *Statistical Abstract for British India*, sixty-first issue. If we leave out of account the War period, when their requirements were starved and certain other occasions when the requisite equipment of rolling stock was allowed to fall below the standard, the Indian railways have on the whole kept pace with, and have admirably served, the needs of commerce which they themselves have stimulated. Yet from the wider standpoint of what commerce might be instead of what it is, we need refer to what the Industrial Commission of 1916-18 pointed out, that "the vested interests of railways have prevented waterways in India from receiving the attention that has been given to them in other large countries with such satisfactory results." (*Report*, p. 175.) It is again true that railways in India have always felt the lack of radial feeders, though their speedy construction was urged by the Secretary of State as early as 1860 and an *ad hoc* cess was levied thereafter. The total mileage of roads in British India at the end of 1927-28 was: Surfaced 59,110 miles, unsurfaced 140,030, or total 199,140 miles, excluding roads maintained by minor local bodies or by villagers themselves. The development of the road system is particularly desirable in an agricultural country like India for the better marketing of its produce. The advent of motor traction has at once increased the importance of roads and introduced a complex problem of competition with railways. It is hoped, however, that by means of proper co-ordination the automobile will act as a great auxiliary to the railways, especially by quick transport of goods in the busy season and by acting as a scout for railway extension.

[2] The reader is referred to K. L. Datta's *Report on the Enquiry into the Rise of Prices in India*, Vol. I, p. 82, for a statement showing the growth of goods traffic on railway and the decrease in freights from 1890 to 1912-13. "A glance at this statement will show how very large the reduction in freight has been in the case of coal and tea, being as much as 40 %, while in the case of jute, jute manufactures and sugar it has been 27 to 31 per cent. The smallest reduction has been in grains and pulses and raw cotton, but here also it has amounted to 20 per cent." *Op. cit.*, p. 81. It may, however, be added that "the railway rates from grain were from the commencement fixed on a low basis, and in the case of raw cotton it was found, on special enquiry . . . that the rates . . . were not such as prevented expansion of the area under cotton cultivation with the expansion in trade in cotton." (See Ghose, *A Monograph on Indian Railway Rates*, p. V.) For railway freights earlier than 1890, Ghose's *Monograph* and Sanyal's *Development of Indian Railways*, 1931, may be consulted.

another or with water transport as the case might be.[1] The navigable dimensions of the Suez Canal were gradually increased and a policy of steady improvement together with a lowering of rates was successfully pursued. All the time steam was steadily displacing the sail and the further improvements in marine engines (the triple and quadruple expansion engines of the 'eighties and the 'nineties) greatly accelerated the change from the one to the other till before long it was all but complete.[2] Meanwhile, just as telegraph and telephone spread wider and wider within the land,[3] so were more connections with outside countries opened and both inland and foreign tariffs underwent considerable reduction to the great advantage of the commercial community. Then again, by persuasion and by friendly advice, by treaties and by use of political influence, the Government succeeded by 1887 in inducing the Native States to abolish their duties and thus transform India into the biggest free trade area in the world in so far as population was concerned. Fiscal reforms were carried a step forward by the abolition of almost all export duties. The conditions of harbours and anchorages, which had first begun to engage the attention of the Government at the end of the 'sixties, gradually passed through considerable improvements. Some ports went ahead, others lagged behind, and there was consequently no regular or even development; but on the whole they made great strides. The major ports, under the ægis of port trusts formed from 1870 on, are to-day provided with all modern facilities, in some cases direct communication between the railways, docks and goods depots being established. Effective measures for due execution and continued revision of marine surveys, for charts on a systematic imperial plan and for provision of safety were also adopted ever since it had been brought to the notice of the Government of India by the Secretary of State

[1] *Vide Industrial Commission Report*, Chap. XIX.

[2] In Indian trade the proportion of steam tonnage to total tonnage formed 39% in 1874-75 (there are no earlier figures distinguishing steamer traffic separately), 65% in 1884-85, 82% in 1894-95, 97·5% in 1904-5, 99% in 1914-15.

[3] Total miles of telegraph and telephone road in 1926-27, 91,501 and 6,625 respectively. *Statistical Abstract*, sixty-first issue.

in his despatch of March 30th, 1871. Last, but not least, canals of irrigation went hand in hand with expansion of facilities of communication and were working at the very source to provide the latter with the traffic they wanted to increase.[1] The progress of irrigation, which received a great momentum with the opening of the twentieth century as the consequence of the recommendations of the Irrigation Commission, coupled with a new agricultural policy of research and experiment initiated at the same time, not only increased India's supply of exportable surplus but strengthened in many directions her position in the world's market. Then the gradual development since 1904 of Co-operative Credit institutions,[2] now forming the nucleus of a powerful uplifting movement among the masses, provided for the financing of the great industry of the country, agriculture, and increased the productive power of the nation in proportion as it saved the ryots from the tightening grip of the usurers' "sterilizing" rates of interest.

When every circumstance was thus imparting in unison a steady, fructifying stimulus towards a rapid development of commerce, there was, however, one discordant factor which on a clear commercial sky blazed as the autumn star, the baleful sign of the fever of speculation. For the greater part of our period there unfortunately existed some form of disorder of the Indian currency system to disturb the even course of trade. In fact, the element of uncertainty which was consequently introduced sometimes proved a serious

[1] Mileage of irrigation, productive and unproductive, in 1926-27:—Main canals and branches, 21,539 miles; distributaries, 41,699 miles; total, 63,238 miles, being "more than sufficient to girdle the earth twice." Total area of land irrigated, 23,172,488 acres.—*Statistical Abstract*, sixty-first issue.

[2]

Years.	No. of Societies.	No. of Members.	Loans issued to members and other Societies. 1,000 Rs.
1905-6*	... 283	28,629	340
1908-9 ...	... 1,963	180,338	7,712
1927-28	... 82,236	3,504,354	397,564

* Includes the Societies in Mysore.

handicap to the transaction of sound business and interfered with the steady influx of foreign capital so essentially needed for the opening out of the country. Again, a disordered currency system stood in the way of a greater development of banking. For "the first essential to a great extension of modern banking is a currency system which inspires the public with absolute confidence." It was further to be regretted that the currency system even at its best failed to provide the necessary degree of elasticity to suit the needs of commerce with the consequence that there was every year caused an extreme stringency in the money market, restricting the movement of trade. The stringency was further accentuated by the divorce between currency and banking reserves, and its annual recurrence was an indication that the banking facilities of the country were inadequate to cope with the increasing volume of trade. This point was especially emphasized by Hambro who in a separate note to the *Report of the Fowler Commission*[1] pointed out how banking developments were tending to lag behind the growing needs of commerce.

In conclusion, however, it must be added that the recurrent currency troubles with which India was visited often arose from unforeseen contingencies beyond human control. It is also gratifying to record that of late the Government has succeeded in ending the period of uncertainty of exchange which, ever since the breakdown of the currency system during the abnormal days of the War, was hanging over the head of the Indian commercial world, and that for the first time in India's financial history the Government has now taken upon itself a definite statutory liability to maintain the exchange at the legally adopted ratio.[2] There is no need to

[1] *Report*, p. 22.

[2] Since the above was written, the world's monetary situation has undergone a complete change. Circumstances beyond her control forced Great Britain off gold in September, 1931. In India the abandonment of the gold standard was simultaneous. One country after another has since followed in the wake. By the end of 1932, thirty-four out of forty-five countries in the world came off the gold basis.

Quite obviously subsequent events have hardly justified the clear note of optimism which the context strikes. The above lines were, however, penned in the middle of 1929. At the moment it was perhaps not yet quite so inexcusable to regard the currency policy of the Government of

trace in detail the steps that have been taken to strengthen and to improve the banking position. Nobody will deny that we have travelled far from the days of the Fowler Commission. From Presidency Banks and Reserve Treasuries to the formation of the Imperial Bank, as a custodian of the Government balances and charged with the responsibility of providing banking facilities all over the country, was a big step forward. This salutary and much-needed reform in our banking system, together with the adoption of other subsidiary measures directed towards the end of effecting a closer *rapprochement* between the Treasury and the money market has helped, as far as it is possible within the framework of our present monetary and banking system, to flatten out the violent seasonal fluctuations characteristic of our market rates of discount. The establishment of a Central Bank is a consummation that is now to be devoutly wished for Though there seems to haunt an imp of frustration in every project for the inauguration of a Central Bank for India, it is fervently to be hoped that this will take a definite shape as the result of the labour of the Banking Commission which will shortly conclude its deliberations [1] It almost goes without saying that such a Bank, when established, will not merely lend a strong and valuable support to the entire

India with a certain degree of satisfaction Up to the end of 1929 the world "behaved fairly well" The difficult times ahead it was scarcely yet possible to foresee "Then, in two years, the United States and France increased their gold holdings by 1,760 million dollars, while the world's monetary gold store was increased by less than 900 million dollars" Maintenance of requisite parity between domestic and international price-levels proved for the countries, which lost gold, an impossible task. The inevitable thing happened The losing countries had to free themselves from the yoke of the yellow metal

[1] The Banking Commission, which signed its report in June, 1931, recommended the creation "at the earliest possible date" of a Central Reserve Bank "as a matter of supreme importance from the point of view of the development of banking facilities in India, and of her economic advancement generally." The vital and urgent need of such an institution "for maintenance unimpaired of the financial safeguards necessary to preserve India's credit in the eyes of the world" has of late been repeatedly emphasized during the successive sessions of the Indian Round Table Conference. The Government of India have accordingly placed once again in the forefront of their policy the early establishment of a Reserve Bank for the country. Nevertheless, in the present world economic situation there remains a formidable stumbling-block in the way of any speedy realization of the aim.

structure of our banking system but will greatly augment the existing banking resources of India to the great benefit of both industry and commerce. It is naturally to be expected that simultaneously with the inauguration of the Central Bank, the recommendations of the Hilton-Young Commission about the reform of our monetary structure will be implemented and there will thus be removed a very old and long-felt want with the establishment of our currency system on a sound and lasting foundation.[1]

[1] With the international currency position radically changed, the problem of the restoration of a sound monetary system in India wears now an entirely different aspect. Present conditions demand a definite measure of co-operation between the various nations in a well-directed effort towards finding a way out of the present *impasse*. It is sincerely to be hoped that the forthcoming World Economic Conference will not end its deliberations without making a valuable contribution towards the solution of the problem.

PART II

A General View

CHAPTER III

Development of Trade

1870-1900

I

SCOPE OF THE CHAPTER

In the previous chapter we presented a general picture of the background and outlined the broad general influences which were at the root of the striking commercial development in subsequent years. It remains now to break up the history of this development into its sections, to go more into detail about the various causes which moulded its course at different periods and to follow its short period vicissitudes.

FIVE WELL-DEFINED PERIODS OF INDIA'S COMMERCIAL DEVELOPMENT

The history of growth of India's external commerce from 1870 naturally divides itself into five more or less well-defined periods. The first of our periods from 1870 came to an end in the year 1893, though in a certain sense the whole of the thirty years extending till the close of the century may be said to have comprised a single period. The years between 1870 and 1900 had, however, an important cleavage in 1893, especially because the above-mentioned year witnessed a basic change in the currency system of the country. We need not expatiate here on the need of an efficient monetary system as a valuable adjunct to trade and commerce. History affords not a few instances when monetary uncertainties or disturbances were fraught with grave consequences for a country's economic progress. On the other hand it is

not difficult to show how a sound and well-devised monetary system largely contributed towards the development of trade of a country. It was therefore no surprise that the inauguration, on an entirely tentative basis, of a radical departure in the Indian currency policy in 1893, was associated in almost every mind with some sort of consequences on trade, either for good or for evil. In order to specifically investigate in a subsequent chapter the effects, if any, of the new currency measure, it is necessary that we must particularly concentrate our attention on the course of trade for some years following the innovation. With this object in view we separate the last seven years of the century and group them into a distinct period. The first two periods were on the whole years of chequered commercial development, when the promise which shone so radiantly in the beginning did not fully materialize on account of divers untoward circumstances. The third period, which commenced from the opening of the present century, naturally stretched itself till the outbreak of the World War, and was, generally speaking, a period of unimpeded progress. The fourth covered the abnormal years of the War and its aftermath. With the reappearance of more normal conditions from the beginning of 1923 the trade of India entered upon its fifth or present stage. We shall now proceed seriatim to analyze the growth of trade during each of the five periods in the light of special circumstances which affected them.

II

1870-1893

(Period of chequered development.)

SPECIAL CIRCUMSTANCES AFFECTING THE CONDITIONS OF TRADE

FAVOURABLE CONDITIONS

(1) *Completion of through railway communication.*

From the point of view of trade development the first half of the period 1870 to 1893 derived a special importance

from the fact that it was during those years that completion of through communications supplied the missing links on different railway lines. The most distant interior was thus brought into unbroken railway communication with the seaboard. The fact deserves a separate mention, for it must have had an especially stimulating influence on trade during the period as distinct from the general influence of the progressive increase of railway mileage which, as we saw, was a characteristic feature of the entire period of our history.

(2) *Tariff Policy.*

The tariff policy of the Government during the period was also especially favourable for an unrestricted development of foreign trade. It will be remembered how events were moving steadily in the direction of removal of all artificial restrictions on trade some years before the commencement of our era. Export duties on almost all articles continued, however, to be an integral feature of the tariff policy until the year 1867. It was in that year that the export duty schedule was curtailed from 97 items to 9. As the consequence of further reductions there existed between 1875 and 1880 duties on three articles of export only. In 1880 the export duties may be said to have been totally abolished but for the retention, for financial reasons, of a small duty on rice. The import duties, however, had to be enhanced for a time on account of financial exigencies immediately after the Mutiny. But there was never absent from the mind of the Government the desire to reduce them and to go back to the old scale as soon as circumstances permitted. Such relief was actually afforded first in 1862 when the duties on cotton piece-goods and yarns were brought down to their former proportions and again in 1864, when the general rate of duties was itself somewhat lowered. In 1875 a surplus budget rendered it possible to take the last step to bring the general scale of duties back to the level of pre-Mutiny days.

At this stage began a period of prolonged and unfortunate controversy over the abolition of cotton duties, the history

of which we need not recount here. Suffice it to say that the retention by the Indian exchequer of any duties, however small, on the imports of cotton yarns and fabrics was not quite palatable to the Lancashire cotton trade, which ceaselessly agitated for their complete abandonment on the scarcely tenable ground that they operated as protective duties. The interested cry of Lancashire prevailed. On pretexts of rigid free-trade principles, there was forced upon India a wholly unnecessary sacrifice of revenue in the shape of total repeal of cotton duties at a time when her finances were in a most hopeless plight. An import tariff, with cotton duties left out, was not, however, worth while. The Government had, therefore, to abandon all other sources of trifling revenue. The country was thus virtually without any tariff from 1882 to 1894. However deplorable its result may have been from certain points of view, no candid student of history would ever deny that it undoubtedly added a new fillip to the expansion of India's foreign trade. It is, however, quite impossible to estimate the precise degree of influence which this exceptional freedom of trade may have exerted on its growth. Circumstances at the time were favourable in so many other respects that, whatever the fiscal policy, prosperity would in any case have followed. On the other hand it is equally safe to assert that among the several factors which had fostered trade during the period, the absence of customs barriers in general, and the discontinuance of the unsound policy of export duties in particular, occupied no insignificant place.

(3) *Reduction of ocean freights.*

Our attention is next drawn to another important factor which considerably assisted the growth of trade during the period. On account of a number of important causes, the rates of shipping freights from about the beginning of the 'seventies were steadily on the decline. There was, briefly speaking, an excessive supply of the effective tonnage of the world brought about by increasing use of steamships, abbreviation of voyage through the Suez Canal and continuous "scrapping" of inefficient ships. From 1880 the

situation became still further aggravated by the policies of several European countries which started subsidized steamship lines of their own.[1] The drop in ocean freights during the eighteen-eighties was very heavy indeed. Compare, for instance, the shipping rates (set out in Table I of the Appendix) from Calcutta to London on two of the important staples of our export as they varied from year to year, throughout the entire period under review.

Comment is probably superfluous to convince anyone that such enormous reductions in costs of transport must have acted as a potent factor in stimulating trade.

ADVERSE FACTORS

We must now set against the above the counteracting causes which prevented trade from reaching the fullest limit of expansion of which it was capable.

(1) *Scarcity and famine at home and commercial depression outside.*

The economic structure of India almost wholly rests on the foundation of agriculture which, we all know, depends on diverse elemental forces beyond human control. A student of Indian agricultural history is indeed struck by the frequency of crises arising in the country from failure or untimely arrival of the monsoons or their uneven distribution. It almost appears that there is a sort of periodicity according to which such crises recur. It is no doubt true that a mishap of this kind no longer means the same orgies of starvation and death as it did even in the near past. But it must be remembered that its one inevitable effect is always to dislocate the external trade of the country and to reduce its volume, though exports and imports of certain particular items may be encouraged by the very conditions which disturb trade in general. It is of course quite obvious

[1] "France started this elaborate bounty system in 1881 and was followed in 1885 by Germany, Italy, Austria, Hungary, Japan, Russia, Denmark, Spain, Belgium and the United States, all of whom adopted some forms of state encouragement to national mercantile marine. . . ." (Knowles, *Industrial and Commercial Revolution during the Nineteenth Century*, p. 305.)

that the export trade, which, as is only natural, closely mirrors the preponderant agricultural economy of the nation, will directly vary as annual meteorological conditions. Indirectly, however, the imports are almost equally affected. Any adverse variation in agricultural prospects almost at once affects, in an unfavourable manner, the amount of earnings available for the purchase of imports from the vast majority of consuming population, obviously because most of them must in the circumstances experience a sudden and actual loss of income, and the few, who do not, have, at any rate, to spend more on such vital necessaries of life as foodstuffs, etc. It is, therefore, an indispensable prelude to a proper study of the development of our foreign trade that we should give a brief account of the general character of the seasons during the period.

The period with which we are now concerned was especially marked by some years of scarcity and one of the severest famines on record. It was during 1877-78 and 1878-79 that a succession of years of bad harvests at last culminated in a severe and widespread famine. Simultaneously the general depression of trade from which the world was suffering more or less since the crisis of 1873 became rather intensified. The slump which followed 1873 was severe and unprecedented indeed, and it pervaded almost every branch of business. It came as an inevitable reaction against four years of progressive but extravagant economic activities which went before, not merely in the U.S.A., where the crisis first broke out, but in almost every other civilized country. India no doubt had her own share of a depression which had almost an international spread. Thus worldwide slump combined with famine at home to upset trade and commerce, and naturally the untoward circumstances left their mark on the course of Indian foreign trade. The effects were not, however, visible in the first year of famine, 1877-78; on the contrary the value of the year's trade surpassed all previous marks, exceeding even the very much inflated trade of 1865-66. This was, as the official reviewer pointed out, the consequence of overtrading and reckless speculation. It was in 1878-9 that trade was considerably restricted, being

12·58% less than the previous year and 2·95% below the year immediately preceding that. But even then, it is encouraging to note that it was well above the level of any other year excepting the years of cotton famine. In the following year there was considerable but not complete recovery. With two consecutive good harvests in 1879 and in 1880, and the gradual revival of trade from its long-continued depression since 1879-80 onwards, conditions gradually returned to the normal. During the following decade the seasons were on the whole favourable and there was no drought or distress on any extensive scale. But the universal depression in trade which prevailed from 1884 to 1886 again disturbed progress. In 1884-85 both imports and exports declined and in the following year trade increased only by a trifling fraction as compared with the previous year's figures, but failed to recover the lost ground.

(2) *Currency and Exchange troubles.*

The outstanding economic event of the period which was not without a deep significance for India's foreign trade was the rupture of India's par of exchange, as of every other country on silver basis, with the gold standard countries of the world.

We propose, however, to relegate a full discussion of this point to a subsequent chapter, which we have exclusively devoted to an examination of the influences of currency changes on the fortunes of Indian trade. Suffice it here to say that a continual see-saw of exchange movements, as was caused during the period owing to the break off of the long-standing relationship between gold and silver, had undoubtedly a deterrent influence on the progress of commerce.

COURSE OF TRADE

A reference to the table on page 54 would show that notwithstanding years of occasional setback which, we know, occurred during the period under review, there was on the whole an unmistakable record of progress.

From an annual average of 991·44 millions of rupees

TABLE (INDIAN TRADE, 1864-65 TO 1893-94, INCLUSIVE OF GOVERNMENT AND PRIVATE ACCOUNTS).

VALUES IN MILLIONS OF RUPEES AND DECIMALS OF A MILLION.

Quinquennium.	Imports.			Exports.			Total.			Increase or Decrease per cent.		
	Merchandise.	Treasure.	Total.	Merchandise.	Treasure.	Total.	Merchandise.	Treasure.	Total.	Imports.	Exports.	Total.
1864-5 to 1868-9	316·97	176·18	493·15	558·63	18·01	576·64	875·60	194·19	1069·79	—	—	—
1869-70 to 1873-4	330·37	82·64	413·01	562·53	15·90	578·43	892·90	98·54	991·44	−16·25	+ ·31	− 7·32
1874-5 to 1878-9	383·64	98·58	482·22	603·25	28·10	631·35	986·89	126·68	1113·57	+16·76	+ 9·15	+12·32
1879-80 to 1883-4	501·54	116·60	618·14	790·84	13·26	804·10	1292·38	129·86	1422·24	+28·19	+27·36	+27·72
1884-5 to 1888-9	615·16	136·18	751·34	886·40	16·38	902·78	1501·56	152·56	1654·12	+21·55	+12·27	+16·30
1889-90 to 1893-4	707·78	179·18	886·96	1049·92	36·75	1086·67	1757·70	215·93	1973·63	+18·05	+20·04	+19·32

during the quinquennium which ended in 1873-74, the aggregate value of the total trade of India all told went up to Rs. 1,973·63 million in the last quinquennium under review. That is to say, within the brief space of a little more than a score of years, the total value of trade almost doubled itself. During the same period India's total population increased at an annual average rate of not more than about 1% between the first census of 1871 and the next and at a slightly higher rate from that date till the following census of 1891. The first two censuses but particularly the former are too defective to serve any useful purposes of comparison. But taking them for what they are worth, we find that after allowance for the expansion of trade which should have normally occurred on account of the growth of population, the net annual increase of trade works itself out on an average at 4½% and slightly more than 3% roughly during the two successive decades from 1871.

Progress, it will be seen, was by no means uniform. During the first five years of our period (1869-70 to 1873-74), the average trade actually receded from that of the previous quinquennium. But the decline was chiefly the consequence of variations in trade in treasure. If we leave them out and compare trade in merchandise only, we find that the total value of trade really increased by just less than 2%. It is also worth remembering that the total value of exports during the second period was in an appreciable manner affected by the rapid decline in the price of raw cotton which naturally began with the end of the American cotton famine. The two following periods saw an accelerated pace of progress at the rate of 12·32% and 27·72% respectively, as compared with each preceding period. The rate of advance then somewhat slowed down and fell to 16·30% during the succeeding five-year period, but went up again to 19·32% during the quinquennium which followed.

If we now analyse and compare imports and exports separately, we notice that, whether it is the merchandise trade only which we consider or the entire trade including treasure, or again whether we take into account government

transactions or leave them out, in every case both imports and exports show a record of unbroken advance. The import trade, however, advanced even more quickly than the export trade, the former expanding by a little more than 114% as against nearly 88% of the latter. The growth of the imports during each of the successive quinquenniums, beginning from 1868-70 was 16·76, 28·19, 21·55 and 18·05 respectively. The corresponding figures for exports were 9·15, 27·36, 12·27, 20·04 from which it may be observed that imports went ahead of exports in each of the above-named periods except in the last.

We have in the above paragraphs measured the progress of trade in terms of values, but we must not forget that they are often more influenced by fluctuations in price than by actual changes in the volume of trade. It may, therefore, be worth while to take a further index to the growth of trade, and for this purpose compare the following figures of total tonnage of shipping which entered to, and cleared from, Indian ports with cargoes.

TABLE.[1]

TOTAL ANNUAL AVERAGE.

Quinquennium.	*Tonnage.*	*Increase or Decrease %.*
1869-70 to 1873-74	3,805,542	—
1874-75 to 1878-79	4,583,107	+ 20·4
1879-80 to 1883-84	5,760,855	+ 25·7
1884-85 to 1888-89	6,203,270	+ 7·68
1889-90 to 1893-94	6,698,330	+ 7·98

The expansion in the volume of trade during the last two periods would appear to be entirely in keeping with the growth of values. From 1884-85, however, the progress, it is evident, was more in value than in quantity, and it was to be explained by rapidly rising prices which, as we shall subsequently see, set in from about that time.

[1] Compiled from *Annual Statements of the Trade and Navigation of British India with Foreign Countries.*

III

Second Period

1894-1900

(period of stagnation)

The closing years of the last century were years of disquiet and distress for India. Trade during the period was generally stagnant, and its course was often disfigured by years of retrogression. The Table on page 58 would give a general view of the trade during the period.

We referred to heavy reduction in oceanic freights and the prevalence of what was an almost ideal condition of freedom of trade as two important factors calculated to foster the development of trade during the previous period. The depressed conditions of freights, as may be seen from Table I of the Appendix, continued throughout the 'nineties in a still more accentuated form till at last the cut-throat competition was brought to an end by mutual agreements and combinations.

Circumstances in some other respects, too, were not altogether unfavourable for an unfettered development of trade during this period. Import duties were no doubt reimposed from March, 1894; for the failure of the opium revenue, the enlarged military expenses on the North West Frontier Province and in connection with the occupation of Burma and, last but not least, the crushing burden of a falling rupee, had all conspired to bring about several years of budgetary disequilibrium and acute financial embarrassment. Nevertheless, duties were fixed on a low scale at the rate of 5% generally so as not to interfere in any way with the progress of trade. The consideration was so paramount in the minds of the authorities that wherever there was any reason to think that even the low 5% duty might retard the development of the country, such goods were either, as in the case of railway materials and machinery,

TABLE [1]

INDIAN TRADE, 1893-94 TO 1899-00, INCLUDING GOVERNMENT TRANSACTIONS.

(Values expressed in million and decimals of million rupees)

Years	Import.		Export.		Total.		Tonnage of entrances and clearances of vessels.
	Merchandise	Total including treasure	Merchandise.	Total including treasure.	Merchandise.	Total including treasure.	
1893-94 ...	770·21	954·83	1065·03	1106·03	1835·24	2060·86	6,763,057
1894-95 ...	735·29	831·10	1089·14	1171·40	1824·43	2002·50	7,214,687
1895-96 ...	729·37	863·05	1143·35	1185·94	1872·72	2048·99	7,199,722
1896-97 ...	761·17	892·02	1039·84	1089·21	1801·01	1981·23	6,711,807
1897-98 ...	736·47	941·78	976·33	1047·81	1712·80	1989·59	6,705,710
1898-99 ...	721·01	899·97	1128·00	1202·11	1849·01	2102·08	7,708,538
1899-00 ...	753·04	962·78	1090·83	1170·40	1843·87	2133·18	7,328,109

[1] Compiled from Statistical Abstract relating to British India.

admitted free, or charged, as on iron and steel, specially low rates. Except as to uncertainties about cotton duties which, as we shall presently see, created some temporary disturbances, the change in tariffs can hardly be supposed to have had any perceptible effect on the general course of trade. But there was no dearth of adverse circumstances to set back the clock of progress.

In the beginning our foreign trade was hampered by the existence of general trade depression in Europe and the sequence of banking collapses in the United States and Australia. Although the depression which followed the crisis of 1893 was not comparable with that which was felt after 1873, either in its intensity or in its continuance, yet it was severe enough to seriously cut down in every country the normal course of production and exchange. Secondly, in the Far East there was the war between China and Japan to disturb the peaceful operation of our trade, and it is probably unnecessary to remind our readers of the great importance of our commercial transactions with those countries. Finally, there was the tormentful effect of capricious exchange movements, of which by and by we shall have to hear more.

Towards 1895-96 prospects considerably brightened. "In England there was some revival of business after a period of depression; the termination of the war between China and Japan at the beginning of the year was the signal for the energetic resumption of commercial enterprise in those countries, the United States and the Australian colonies emerged from the depression which had hung over them for two or three years, exchange was fairly steady; most of the Indian manufacturing industries were in a flourishing condition, the paper mills alone lying under a temporary depression; Indian agriculture was on the whole not unsuccessful, though there were exceptions in Northern India in respect of some important staples which were injured by a somewhat scanty S.W. monsoon and its early termination." But there was again "one special incident to seriously interrupt the course of trade." "That incident, which was perhaps the principal feature of the year, was the

agitation which was continued from the preceding year on the subject of the import duty on cotton yarns and fabrics. In 1894 the agitation was carried on in India against the exclusion of these articles from the import tariff schedules when most other imported articles were subject to duty. This agitation subsided on the inclusion of these articles in the tariff in December, 1894, though some discontent was caused by the imposition of a countervailing excise on yarns made in the Indian mills of counts above no. 20. But the agitation was forthwith transferred to Lancashire and continued throughout the year, subsiding only when the Government in February, 1896, modified the tariff by the entire exemption of yarns (the rate of duty on dyed yarns having previously, shortly after the beginning of the year, been reduced to one-half per cent.), and the reduction of the rate of duty on all other cotton manufactures from 5% to 3½% *ad valorem*."[1] The fiscal unsettlement, existing during the greater part of the year, naturally restricted importation of cotton goods, more because the market was already overstocked on account of previous years of excessive supply which again was brought about by fiscal uncertainty, though of an opposite character. So it was that in spite of so many favourable circumstances, total imports in 1895-96 actually declined primarily on account of shrinkage of cotton imports. Unfortunately, however, still darker days were yet to come.

The long spell of fairly satisfactory seasonal conditions since 1880 came to an end in the middle of the year 1896-97. The abrupt end of the monsoon a month earlier than usual brought the country dangerously near famine conditions. When, however, it was followed by the failure of winter rains as well, the ill-om ened shadow of a dire famine was cast upon vast areas. "C on, oil-seeds, rice except in Burma, and wheat, all were m below the average and the excessively high range of p of food-grains practically put an end to the export c t, while the exportable rice of Burma was largely d d to India." But misfortunes

[1] *Review of* T r *India*, 1895-96, pp. 5-6.

YEARS.

had never come singly. Simultaneously there broke out in Bombay bubonic plague in its most virulent form, and soon spread to Karachi and other places in the Bombay Presidency and in Sind. The widespread disorganization of trade which occurred when the pestilence was at its height beggared all description. The intricate machinery of business with its long chain of apparently separate, yet essentially interdependent, operations was violently thrown out of gear. Importers who ran away for their lives from the affected ports countermanded old orders as far as possible. The warehouses and docksheds were packed with undelivered goods which the consignees left to take care of themselves. The quarantine regulations and detention camps which had to be extended all over the country greatly hampered the collection and distribution of commodities and thus affected both exports and imports. The adoption of quarantine against Indian goods in other countries dealt another blow to our export trade. A devastating earthquake along the eastern side and rather extensive military operations necessitated by the outbreak of hostilities with the tribes on the north-western frontier still further complicated the situation.

Then began, as the consequence of the abovementioned disturbing circumstances and also of other factors, which we shall have occasion hereafter to discuss,[1] a period of acute monetary stringency. For, huge governmental expenses on war and famine relief and suspension of payment of revenue necessitated by the latter circumstance resulted in the withdrawal of large sums from commercial centres and their retention, much longer than usual, in the interior. The depletion of treasuries consequent on such abnormal expenditure did in its turn force the Government to suspend during the three months from October to December of 1898 the usual sale of Council bills in England by means of which, as is well known, the Secretary of State was provided with funds on account of "Home Charges." The consequence naturally was that the Indian money market was deprived of its accustomed supply of money which always followed the redemption of such bills in India. Even suspension of

[1] *Infra*, pp. 203-4.

Councils had not sufficed to end the financial embarrassment. During the above three months the Secretary of State had actually to remit in aid of the Indian Government sterling bills bought by him in England with the result that there was withdrawn from the already harassed local markets a sum of 100 lakhs of rupees[1] which served still further to accentuate the scarcity of loanable funds. There was, moreover, a general lock-up of capital among all classes of people consequent on distrust and disorganization created by the havocs of famine and epidemic. The stringency began with the outbreak of famine in the autumn of 1896 and the Bank of Bengal was to give the first warning when it rushed up its rate from 4% on 17th September to 8% on 23rd November. The stringency gained in intensity with the lapse of time and lasted until the busy season of 1898-99. At the height of the stringency, the rates soared up as high as 12% and 13% and sometimes accommodation was unobtainable on any terms whatsoever.[2] It is entirely unnecessary to dilate on the very severe strain and adverse influence which such money market conditions perforce exercised on trade in general and export trade in particular.

When we remember all the facts described above, we should not at all be surprised that in 1896-97 exports actually decreased from Rs. 1185·94 million to Rs. 1089·21 million. Our surprise really should be that they did not actually decrease even more. In the first year the adverse effect on imports was not, however, perceptible; for, a very active trade was carried on in the former half of the year when the dark clouds had not yet appeared in the sky. But one can easily read the woeful story in the figures of 1897-98 and 1898-99. After the spring harvest of 1898, some relief was brought to the country, though the restoration to normal

[1] *Vide* Report of the Head Commissioner of Paper Currency to the Secretary to the Government of Indian Finance and Commerce Dept., 1899.

[2] *Cf.* "Even these rates (*i.e.*, 12% and 13%) were more or less nominal, for more often than not the Presidency Banks have absolutely refused to make advances at all even on Government paper and gold at any rate of interest." Letter from the Bombay Native Shares, Stocks and Exchange Brokers' Association to the Chairman of the Indian Currency Committee, May 28th, 1898. *Op. cit.*, App. No. 5, p. 20.

conditions was by no means rapid and complete. This partial recovery at once expressed itself in increased exports in 1898-99; but the latter half of 1899-00 proved to be a mere replica of 1896-97 marked by all the concomitant disturbances and distresses of drought, pestilence, and disorganized money market. Nevertheless, on the whole our trade stood the trial well and it was a clear demonstration of its remarkable vitality that in 1899-00 trade did not, after all, compare so unfavourably with the figures of the preceding year.

CONCLUSION

If now at the end of our review of the Indian trade during the last thirty years of the past century we glance backwards, we have on the whole reasons to be satisfied with an evolution which, though impeded by not a few adverse circumstances, was yet "comprehensive and, by comparison with the past, of enormous dimensions." But, as O'Conor aptly remarked, "We should however be deceiving ourselves if we adopted that past as our standard of comparison."[1] We must, as he further added, estimate her progress by reference to conditions in other parts of the civilized world. We therefore give on pages 64 and 65 a comparative table from which we can gauge the relative progress of the trade of India as compared with the trade of the most important countries of the world.

We have on the whole reasons to be satisfied with the results of our comparison. From 1873 to 1883 the progress of Indian commerce simply cast into shade the record of trade development of any other country. In 1890 and in 1900 the growth in the rupee value of trade was no doubt considerable, but it failed to materialize itself in terms of pounds sterling. Nevertheless, between 1873 and 1900, the first and the last year of our table, the increase in the value of Indian trade, even when measured in terms of sterling, was inferior only to that of the United States of America.

"At the same time when the figures of the trade of the different countries are brought together in this way, the small

[1] *J.R.S.A.*, Vol. 52, No. 2691, p. 652.

TABLE*

(000 omitted).

Years.	United Kingdom.			France.		
	Imp.	Exp.	Total.	Imp.	Exp.	Total.
	£	£	£	£	£	£
1. 1873	371,287	255,165	626,452	142,192	151,492	293,684
2. 1883	426,892	239,799	666,691	192,172	138,075	330,247
3. Percentage of increase or decrease in 1883 compared with 1873	+14·9	−6·02	+6·42	+35·1	−8·95	+12·4
4. 1890	420,692	263,530	684,222	177,476	150,136	327,612
5. Percentage of increase or decrease compared with 1883	−1·45	+9·89	+2·62	−7·64	+8·73	−·79
6. 1900	523,075	291,192	814,267	187,912	164,348	352,260
7. Percentage of increase or decrease compared with 1890	+24·3	+10·4	+19·10	+5·88	+9·46	+7·52
8. Percentage of increase or decrease compared with 1873	+40·8	+14·1	+29·9	+32·1	+8·48	+19·9

* The table is compiled from "Statistical Abstracts for the United Kingdom," "Statistical Abstracts Relating to British India," and "Statistical Abstracts for the Principal and other Foreign Countries," and shows the imports and exports of merchandise only, the figures for exports being exclusive of the re-export trade.

F

	Germany.			U.S.A.[1]			India.[2]		
	Imp.	Exp.	Total.	Imp.	Exp.	Total.	Imp.	Exp.	Total.
	£	£	£	£	£	£	£ or Rx.[3]	£ or Rx.	£ or Rx.
1.	187,810	115,090	302,900	133,778	105,215	238,993	31,629	53,114	84,743
2.	163,185	163,610	326,795	150,663	167,546	318,209	52,704	85,009	137,713
3.	−13·11	+42·16	+7·89	+12·6	+59·2	+33·1	+66·6	+60·0	+62·5
4.	208,105	166,405	374,510	161,828	176,103	337,931	£ 52,032[5] Rx. 69,034	£ 72,282[5] Rx. 95,902	£ 124,315[5] Rx. 164,936
5.	+27·5	+1·70	+14·2	+7·41	+5·10	+6·19	−1·27[6] +30·9[7]	−14·9[6] +12·8[7]	−9·73[6] +19·7[7]
6.	[4]	[4]	[4]	172,129	285,576	457,705	£ 50,852 Rx. 76,278	£ 69,440 Rx. 104,160	£ 120,292 Rx. 180,438
7.	—	—	—	+6·36	+62·1	+35·4	−2·26[6] +10·4[7]	−3·93[6] +8·54[7]	−3·3[6] +9·39[7]
8.	—	—	—	+28·6	+171	+91·5	+60·7[6] +141[7]	+30·7[6] +96·1[7]	+41·9[6] +112[7]

[1] Years ended 30th June.
[2] Years represent financial years, *e.g.*, 1873 means the year beginning from 1st April, 1873, and ending on 31st March, 1874.
[3] Rx. is a symbol often used in India to denote tens of rupees.
[4] Owing to change in the basis of computation, the figures do not bear comparison with those of former years.
[5] Converted into pound sterling on the basis of the average rate of exchange during the year (Re. 1 = 18·089d.).
[6] Comparison in £. [7] Comparison in Rs.

extent of the foreign trade of India relative to its population must strike the inquirer."[1] O'Conor calculated that in 1883-84 while the trade of India was at the rate of about 12s. per head,[2] the trade of the United Kingdom represented 350s., of France 168s., of Germany 145s., of the U.S.A. 105s. and of Italy 68s. a head respectively.[3] The corresponding figures of per capita trade for the year 1900 were 8⅓s., say 9s., in the case of India, and 394s., 181s. and 120s. respectively in the cases of the United Kingdom, France and the United States of America.[4] In other words, the per capita trade of each of the above-named countries except that of India exhibited distinct improvement between 1884 and 1900. From the point of view of trade per head of population, our commerce was then not merely trifling, but even the fact of its progress which seemed so striking when we considered it absolutely, was rather elusive. There are obvious dangers of drawing inferences from comparisons of per capita trade of countries of unequal size and of widely different economic conditions. Nevertheless, the above fact clearly suggests that however satisfactory the absolute progress of our trade may have been from 1870 to 1900, there was still left much that was yet to be desired.

[1] *Review of Trade for India*, 1884-85, p. 10.

[2] The above was calculated on the basis of 2s. a rupee; the correct figure on the basis of the actual average rate of exchange would be 9¾s. roughly.

[3] *Review of Trade for India*, 1884-85, p. 10.

[4] The figures are calculated from the statistical data compiled from Statistical Abstracts for the United Kingdom, Statistical Abstracts relating to British India, and Statistical Abstracts for the principal and other foreign countries.

CHAPTER IV

DEVELOPMENT OF TRADE

1900—1913

(Period of unimpeded progress)

WORLD-WIDE COMMERCIAL PROSPERITY DURING 1900-1913

With the opening of the twentieth century there was ushered in an epoch of unprecedented and world-wide commercial prosperity. The downward trend of international gold prices with all its depressing effects on industry and commerce was arrested by the year 1896. Chiefly on account of an unprecedented increase in the output of gold there commenced since then a period of rising prices which, notwithstanding some intervening years of depression following the booms of 1900 and of 1907, showed a steady upward movement. The increased gold supply and its sequence, rising prices, did not of themselves bring the prosperity, but the "admittedly irrational stimulus" which they provided "fired imagination" and "promoted activity" all the world over. The rising tide of progress which thus set in was interrupted only for a brief period during the depression of 1907-8, but was not checked; it continued till 1913-14, when, of course, the outbreak of the great European conflict brought it to an abrupt end.

COMMERCIAL PROSPECTS IN INDIA

The commercial prospect in India, however, was anything but cheerful, when the new century entered into the scene. The sky was not yet free from the lowering clouds of famine with which the whole landscape was overshadowed towards

the end of the last century. For the south-west monsoon of 1900, though not altogether unsatisfactory when considered as a whole, fell below the level of expectation in Western India. The ravages of plague were still spreading their devastating havoc there and adding to the distress of the famine-stricken people. The situation did not naturally permit either any large exportation of food grains and of cotton and oilseeds, the staples of our exports, nor of any considerable importation of foreign goods on the part of a famished and suffering population.

Conditions in other respects, too, did not seem at all encouraging. All the important industries of the land were, generally speaking, suffering from the ague of depression. The cotton industry, for instance, was doubly hit, by high prices of cotton on the one hand and depressed yarn market on the other. For the famine enhanced the price of the raw material at the same time that it impaired the purchasing power of the people, while the collapse of the China market brought about by previous years of overtrading and by the outbreak of Chinese anti-foreign disturbances, culminating in the Boxer Rebellion of 1900, immeasurably accentuated the evils of the situation. The tea industry also was faced with an acute crisis, chiefly as the consequence of its too exclusive dependence on a single market. The coffee, indigo and sugar trades were all in bad ways on account of the combined effects of limited crops and of severe foreign competition. How could trade be expected to increase and prosper under such unfavourable conditions?

COMMERCIAL PROGRESS BETWEEN 1901-2 AND 1907-8

If the outlook was so discouraging in the beginning, prosperity was not far behind. With the passing away of the adverse seasons which afflicted the land during the closing years of the last century, the gloom dispersed. The year 1900-01 was only the last of a long cycle of lean years of stagnant trade. Even before the year was out, the sunshine of prosperity was visible breaking forth through the clouds. The rains during the winter of 1900 were on the whole

quite favourable, and coming as they did in succession to a not altogether unsatisfactory autumnal monsoon, they made possible a remarkable, if not complete, recovery of trade during the second half of the year. To such a large extent was this the case that the value of the total trade of the year did not, in fact, sink much below the level previously reached and was still larger than the trade of any other year save and except the two immediately preceding years. Compared with the previous year, the total fall in the value of merchandise transactions was only 2%. On the import side of the account, the figure was actually in excess of that of any previous year. Including Government transactions, even the total trade would indeed appear to be 7% in excess of the value of the preceding year ; but this should not again deceive us as to the real truth about the character of the year's trade. The year was at best a year of recuperation and not of progress. Trade on Government accounts was largely swelled by a great increase in imports and exports of treasure which was wholly due to pure currency operations of the Government.[1]

In the following year, thanks to a good season accompanied as it naturally was with good harvests and marked development of the purchasing power of the Indian masses, trade not merely returned to the normal but showed a large increase. The increase in the value of the trade in 1901-2 represented a still greater increase in its volume, " since prices ranged at a lower level in 1901 than in 1900."[2] Yet it was only the beginning. There followed from that time onward a period of about six years of almost unbroken commercial progress, the most potent reason for which was the general character of the seasons. The monsoons in these years were on the whole almost continuously helpful for ensuring the maintenance and increase of agricultural

[1] The actual circumstances were briefly the following. Part of the new currency scheme was an offer on the part of the Government to give rupees in exchange for gold in India. Advantage was largely taken of this offer and the result was an accumulation of gold in the Government Treasuries and a depletion of the stock of rupees. The Government therefore decided to send the surplus gold to London and to buy there silver for the coinage of the rupees. *Moral and Material Progress Report*, 1900-01, p. 179.

[2] *Ibid.*, 1901-2, p. 241.

prosperity which was the bedrock of Indian trade. Further, the depression in the cotton industry was over as early as 1901-2 with the reversion of raw cotton to its normal prices following on larger crops and the revival of demand for yarns after the end of a period of famine at home and political troubles in China, though occasional difficulties were not altogether unknown in one or two subsequent years. The tea industry, however, was yet wallowing in the slough of depression, and it was not till 1905-6 that it actually emerged out of it. Clouds were also hanging about the coffee, indigo and sugar industries and their prospects really became more and more gloomy with the lapse of years. Nevertheless, any such unwholesome features were submerged in the general prosperity brought by the favourable seasons. It must, however, be stated that in 1904-5 there was unfortunately a large failure of wheat and oilseeds and of rice crops on account of adverse seasonal conditions, and such conditions naturally affected the trade unfavourably in the following year. But the continuity of the progress of trade was not broken since the remarkably successful jute crops and the increased exports of various other goods, raw and manufactured, more than offset the untoward effects in other respects. Trade on the contrary received a further stimulus when the season of 1906-7 proved quite favourable, and the year 1907-8 formed the crest of this long wave of progress.

The table on the following page shows in a conspectus the progress of trade in terms of value from 1900-01 to 1907-8. The continuous increase in the value of the trade throughout the entire period in question is quite noticeable from it. The diminution in imports of merchandise in 1905-6 was primarily attributable to the excessive speculative importation of cottons and other goods in the preceding year and its consequent reaction. It was only in 1905-6 that we observe a setback, the total trade having fallen a trifle more than 1% below the 1904-5 figure. It did not, however, mean any fall-off in merchandise transactions, which on the contrary showed a rise of 4·2% above the high figures of the previous year, imports having increased

TABLE.

(Private Trade.)

(In million rupees.)

Year.	Imp. merchandise.	% age + or −	Total imp. including treasure.	% age + or −	Exp. Ind. merchandise.	% age + or −	Total exp. and re-exp. including treasure.	% age + or −	Grand total.	% age + or −
1900-01 ...	762·779		927·414		1041·605		1148·435		2075·849	
1901-2 ...	815·190	+ 6·8	1011·673	+ 9·1	1212·051	+16·3	1329·274	+15·7	2340·947	+12·7
1902-3 ...	787·879	− 3·3	1040·436	+ 2·8	1258·797	+ 3·8	1376·254	+ 3·5	2416·690	+ 3·2
1903-4 ...	848·233	+ 7·7	1167·665	+12·2	1496·334	+18·8	1610·067	+16·9	2777·732	+14·9
1904-5 ...	966·783	+13·9	1297·058	+11·1	1541·413	+ 3·0	1656·029	+ 2·8	2953·087	+ 6·3
1905-6 ...	1030·841	+ 6·6	1240·053	− 4·4	1581·892	+ 2·6	1681·678	+ 1·5	2921·731	− 1·06
1906-7 ...	1083·076	+ 5·0	1355·086	+ 9·2	1730·820	+ 9·4	1822·790	+ 8·3	3177·876	+ 8·7
1907-8 ...	1298·951	+19·9	1627·155	+20·1	1735·907	+ ·29	1828·042	+ ·28	3455·197	+ 8·7

by 6·6% and exports of Indian produce by 2·6%. It may also be noticed that though imports and exports of merchandise did not always move together, yet in the long run they kept fairly even pace with each other. The greater growth of exports during the first years was balanced by the more rapid advance of imports during the last, so that between 1900-01 and 1907-8 imports of merchandise went up by 70% and exports of Indian produce at about the same rate, *i.e.*, by 68%.

TEMPORARY SETBACK IN 1908-9

In 1908-9 a halt was called in this expansion by an unfortunate concurrence of adverse factors within and without the country. The exports of Indian merchandise declined by 13·6% and imports of merchandise by 6·6% as compared with the preceding year. Total exports and total imports including treasure but excluding Government transactions were respectively 13·05% and 11·06% below corresponding figures of the previous year. At the end of a fairly long period of commercial activity the catastrophe came indeed with striking suddenness. "The spring harvest of 1907 had been generally indifferent particularly in Northern India and when the failure of the south-west monsoon occurred famine conditions declared themselves over a large area."[1] The affected regions comprised an area of 133,000 sq. miles with a population of 49 million souls. Over the whole country there was no staple crop but was seriously affected either through scanty or excessive rainfall. "Agricultural prospects were to some extent improved by good rains in December and January which saved part of the spring harvest of wheat and oilseeds in Northern India, but the fall was generally too late to remedy the restricted extent of the original sowings."[2] The malignant influence of such disastrous seasons was not, however, detectable in the trade figures of the same year, partly because the abundant prosperity of the first half of the year obscured the badness of the second half, and partly because by far the larger portion of exports of wheat, cotton and oil-

[1] *Review of Trade for India*, 1907-8, p. 1. [2] *Ibid.*

seeds throughout the year were drawn from the exportable surplus of the previous year's crops. It was in 1908-9 that their effects became clearly visible in the much shrunken values of exports and imports. The high prices of food grains which ruled throughout the year naturally robbed the people of a good deal of their purchasing power that they would otherwise have spent on imported and such other goods. In fact, on the basis of higher prices prevailing, consumption of food grains alone, assuming it to have been maintained at almost its normal level, should have cost the nation a sum of Rs. 196·2 crores in addition to its habitual outlay on that item. On the other hand the highest total value of all imports taken together did not as yet reach more than Rs. 163 crores in any one year. In such circumstances one might well imagine that the margin of surplus available for imports should have altogether evanesced, were it not chiefly for the fact that the consumers were mostly producers of food grains themselves.

The failure of monsoons was not, however, the only cause of the retrogression. It was unfortunately the case that at the very moment when India was much handicapped in the power of exporting goods on account of the prevalence of famine, there synchronized a most profound commercial depression throughout the greater part of the world with the inevitable consequence of seriously restricted foreign demands for Indian goods. The general depression, an integral phase of the familiar phenomenon of trade cycles, came as an inevitable lapse after five years of great progress during which unbridled optimism set up a pace far more rapid than was consistent with healthy development. The business slump was very much intensified, if not caused, by the banking crisis in the U.S.A. towards the end of 1907. The American crisis, resulting for some time in partial suspension of cash payments all over the country, and consequent dislocation of exchanges between its different parts, proved detrimental to Indian trade in more ways than one. It not only cut off for the time being a very important market for certain kinds of Indian goods and spread its depressing effects on other markets, but also involved a large drain on

the world's gold resources[1] which in turn occasioned great disturbances in foreign countries and completely deranged the Far Eastern exchange. India's trade with China, already struggling hard through the quicksands of violently fluctuating exchanges, almost foundered on the exchange *débâcle* of 1908-9. During the crisis it was incidentally revealed that "India like America was suffering though not to the same extent from the effects of overtrading which had tempted many petty merchants and small capitalists to increase the volume of their business beyond prudential bounds."[2]

About the same time there was also precipitated in India an exchange crisis for a short period from September, 1907, to the end of December, 1908.[3] The widespread failure of harvests naturally led to a large reduction in exports. The imports, however, did not at all diminish in the same proportion.[4] The balance of trade from the autumn of 1907 to the next autumn of 1908, that is, at the height of the disturbance, was exceptionally adverse, and coupled as it was with world-wide monetary stringency the Indian exchange became very much depressed. The weakness became especially marked in November, and the demand for

[1] In fact, gold imported into the U.S.A. "was far greater than the amount imported during any other crisis in our history and affords further evidence of the ability of this country to secure additional supplies of gold in an emergency. This power will remain so long as our foreign trade is made up principally of imported luxuries and exported necessities." Sprague, *History of Crises under the National Banking System*, p. 284.

[2] *Review of Trade for India*, 1907-8, p. 2.

[3] There is room for difference of opinion as to the period over which the difficulties of 1907 and 1908 should be regarded as having extended. The above is chosen as the period because it included all the special measures taken in 1907-8 for supporting exchange arising out of the necessity for so doing. The exchange crisis may be considered, from some points of view, to have ended on 31st August, 1908, since no application was received after 13th August for the bills on London offered by the Government of India and substantial sales of Council bills were made by the Secretary of State in September, 1908 *Vide Supplementary Statements to Accompany Memorandum on Gold Standard Reserve*, submitted by Mr. L. Abrahams, Royal Commission on Indian Finance and Currency, 1913, Cd. 7070, Vol. I, App IV, p. 105

[4] It was partly to be explained by the greater habituation of the people to the use of foreign goods, partly by the eagerness of the manufacturers to dispose of their stock as early as possible in the face of falling prices, though unaccompanied by any corresponding internal demand and partly, also, by the increased importation of silver, which became very cheap at the time.

gold for the purpose of exportation became insistent. For a time the Government, unable to see its way clearly through the maze of a tangled affair which was quite novel to them and somewhat suspicious that gold might be used in connection with speculation in America,[1] hesitated to adopt the only right course, that is, to let out gold freely. The exchange on Calcutta dropped on 23rd November as low as 1s. $3\frac{23}{32}$d. The country was dangerously near a breakdown of its newly set up currency system and there was a general panic among business men. The indecision, however, was momentary. Immediately afterwards the Government adopted proper measures, and the crisis was averted. On account of the suspension of the sale of Council bills and declaration of the Government's readiness to release gold freely, the exchange began to improve till on 7th December it reached 1s. $3\frac{7}{8}$d. in Calcutta. None the less, the rate continued to be weak even during the subsequently ensuing busy season. The bank rate, usually high at this time of the year, became particularly so, having reached 9% as against a usual 8%. The nervous tension in the business world, especially acute during the past few months, did not, therefore, entirely disappear. The Government no doubt had announced on the 7th December their willingness to support exchange in the event of any serious weakness by unrestricted sale of Reverse Councils, but the pledge was not in any sense definite. For in the last analysis they reserved the discretion to act as circumstances at the moment dictated. From March, however, the Government actually placed at the disposal of the market large offers of sterling drafts till the position of the exchange appeared sufficiently strong by the middle of the following September.

The year 1908-9 thus began under the shadow of a famine, deepened by a widely-spread commercial depression and all the disturbing influences of a financial crisis in America and an exchange crisis at home. The commercial depression grew "deeper in proportion as the forward business which was engaged in ran out or was found unrealizable" while

[1] See evidence of Sir James Meston before Royal Commission on Indian Finance and Currency, 1913. Q. 9086.

the recovery from the shock which credit sustained in Europe and America was necessarily slow. In India, an inadequate and irregularly distributed rainfall during 1908 put off still further the restoration of normal business from conditions of famine. The occurrence of other disturbances in England on the top of the commercial depression, especially to mention the strike and lock-out in the cotton industry, naturally contributed still further to reduce the activity of Indian trade. There was, however, some improvement towards the end of the year, but it totally failed to impress itself upon the returns of the year's trade. In view of such a combination of adverse influences the diminution in the value of trade to the small extent it actually occurred was one more proof of its remarkable vitality.

RECOVERY AND PROGRESS

Towards the close of the year, conditions of trade were quickly returning to the equilibrium. With the recrudescence of commercial activity throughout the world after a period of temporary depression, which fortunately was of short duration in comparison with what followed the crisis of 1873 or 1893, India forged steadily onwards. The year 1909-10 marked the first definite stage of recovery and expansion and inaugurated a fresh period of steady progress of trade characterized by a continuous increase of both imports and exports. The actual figures were as we give below.

TABLE.

(Private transactions only.)

(In lakhs of Rs.)

Year.	Imp. of merchandise.	Total imp. including treasure.	Expt. of Indian merchandise.	Total expt. including treasure.	Grand total (3 plus 5).
(1)	(2)	(3)	(4)	(5)	(6)
1909-10 ...	1,17,06	1,54,49	1,84,50	1,94,28	3,48,77
1910-11 ...	1,29.35	1,69,08	2,05,62	2,17,00	3,86,08
1911-12 ...	1,38,57	1,92,00	2,21,82	2,38,20	4,30,20
1912-13 ...	1,61,00	2,12,20	2,41,35	2,53,13	4,65,33
1913-14 ...	1,83,25	2,19,87	2,44,20	2,55,93	4,75,80

In 1909-10 the out-turn of crops was remarkably satisfactory on account of an exceptionally propitious monsoon, and as it happened to coincide with the failure of wheat in America, of cotton in Egypt and of oilseeds in Argentina, the exports of raw produce were naturally very brisk and they realized high prices. The exports of merchandise went up with a big stride by 23% in value. The progress would have been even more striking but for the fact that all important manufacturing industries of our country were passing through most anxious times on account of unremunerativeness of markets for such goods. The failure of the import trade to recover fully was chiefly due to two circumstances. Depression was still lingering on in certain quarters and the stocks, especially of cottons, accumulated from a previous year of overtrading, acted as dead weights on the market. The total trade, however, advanced by 15·1%, the decrease in imports having only partially offset the large increase in exports. In 1910-11 the Indian trade was assisted not only by a successful season, but indirectly by a marked revival of trade in other countries and it reached a fresh milestone with a total volume represented by Rs. 3,905 million, surpassing in its rate of growth the increase of trade of any other principal country of the world. That in its turn at once ceased to be the normal size and for the rest of the period, thanks especially to a succession of monsoons on the whole quite good, the total figures easily exceeded the four-milliard mark and were about to reach five milliards in 1913-14. This indeed was the case in spite of the existence of some disturbing and depressing factors, both political and economic. In 1911-12 and 1912-13 the untoward influences were mostly away from home, the more important among them being frequent outbreaks of industrial strife, sometimes of a very serious character, in European countries and the dullness of demand from the U.S.A., chiefly on account of its slow recovery from the shock of the previous crisis. There also supervened upon such troubles the disquieting effects of the outbreak of the Balkan War in 1912-13 and the uncertainties of the American Presidential election in the same year. In 1913-14 the outside disturbing

influences were few, but within the country the yield of crops was far from satisfactory on account of a very irregular monsoon and as a matter of fact actual famine conditions established themselves in certain areas. Simultaneously, there occurred in North-Western India and in Bombay a banking crisis, when one Indian bank after another toppled down in quick succession, causing a widespread panic all over the country and disturbing the regular channels of business operations.[1] On account of the breakdown of credit, goods, it was reported, went very slowly into consumption during the latter half of the year. It is therefore specially gratifying to note the sustained character of progress all through the period in spite of such occasional disturbing factors.

TRUE MEASURE OF PROGRESS

Thus the first years of the present century right up to the outbreak of the War were years of great development for the trade of India as of the rest of the world. The setback towards the middle of the period was not in any way peculiar to India but was, as we incidentally stated, common to every other country. It was an evidence of what we all know to be an almost inevitable, though an unfortunate, feature of modern economic evolution that progress always takes place in a series of lurches forward and backward rather than at a smooth and regular pace.

It is, however, well worthy of remark that we have dealt with values only which do not necessarily show the volume of commodities moved. As we mentioned at the very outset, the period which we are at present considering was one of rising prices the world over. It is, therefore, especially necessary that we must check the figures of actual values by means of index numbers in order to make a proper estimate of the true measure of advance that trade recorded during the period. In the following table are shown the declared

[1] "Altogether during 1913-14, 54 banks went into liquidation with a total paid-up capital of 144 lakhs." *Com. on Indian Exchange and Currency* 1919, C. 529, App. I, p. 11.

values of imports and exports and of total trade in merchandise as recalculated on the basis of prices prevailing in 1900-01.[1]

TABLE

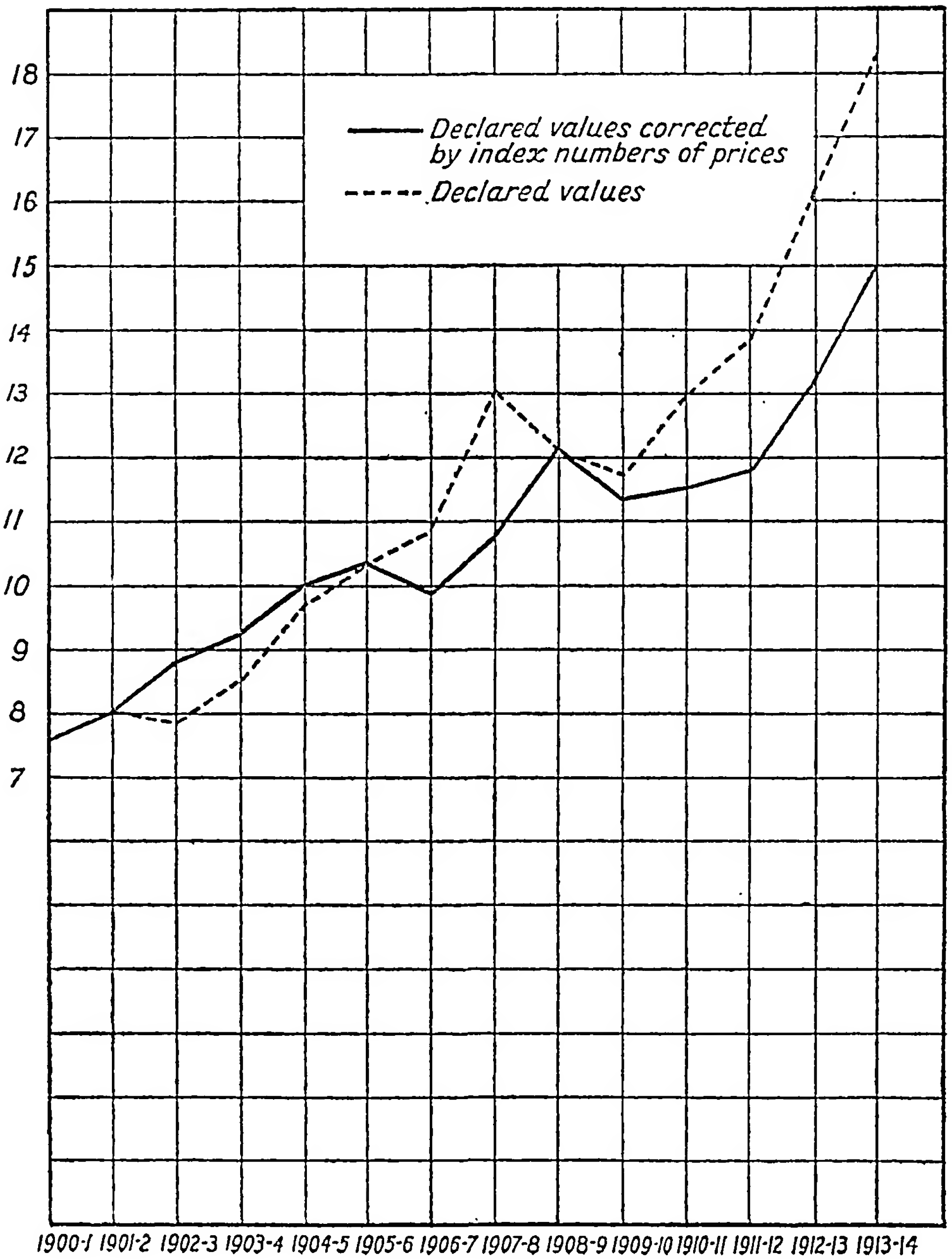
(In lakhs of Rs.)

Year.	Imports of merchandise.	Exports of Indian produce.	Total.
1900-01 ...	76,27	1,04,16	1,80,43
1901-2	81,52	1,29,56	2,11,08
1902-3	87,95	1,38,13	2,26,08
1903-4	92,53	1,80,14	2,72,67
1904-5	99,80	1,83,78	2,83,58
1905-6	1,03,08	1,69,10	2,72,18
1906-7	99,02	1,54,40	2,53,42
1907-8	1,07,50	1,48,45	2,55,95
1908-9	1,21,26	1,23,06	2,71,12
1909-10 ...	1,13,51	1,72,01	2,85,52
1910-11 ...	1,13,92	2,00,76	3,14,68
1911-12 ...	1,17,72	2,02,24	3,19,96
1912-13 ...	1,32,10	2,06,39	3,38,49
1913-14 ...	1,50,35	1,96,62	3,46,97

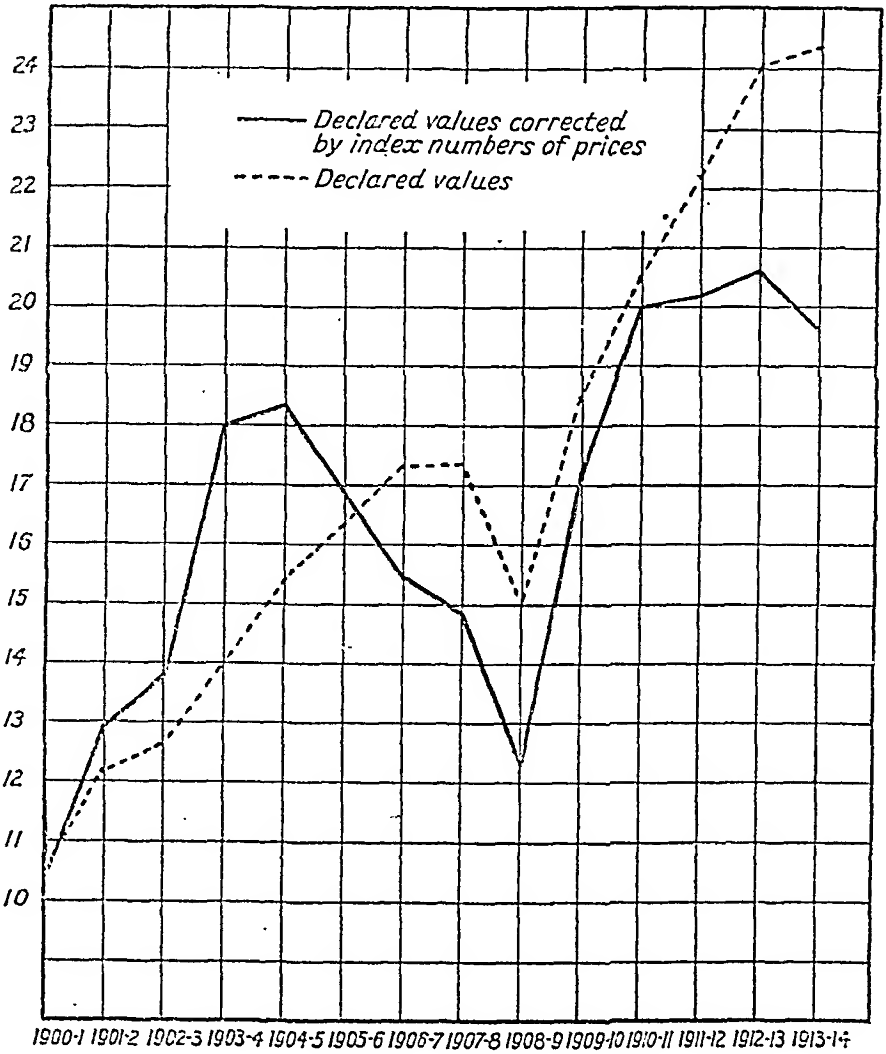
From the appended graphs, where, for convenience of comparison, we have plotted the figures in the above table along with the corresponding actual values recorded in the same years, it will be quite obvious that the curves as represented by the two sets of values (whether of imports or of exports or of total trade), though they seldom coalesced, were nevertheless similar in direction and in pace. Up to 1905-6 both imports and exports expanded even more in volume than in value, and although in subsequent years the reverse was the case, yet as the diagrams would clearly show there was not the slightest doubt that they were still steadily and rapidly growing in dimensions. So far as the extent of our total commercial transactions was concerned, we possess a further corroborative evidence in shipping statistics which, as we elsewhere remarked, afford a useful if not a precise measure of the volume of trade. A brief comparison of the

[1] The index numbers used are of 11 imported articles (unweighted) and of 28 exported articles (unweighted) as given in Summary Table I of *Index Numbers of Indian Prices*, 1861-1926, published by the Department of Commercial Intelligence and Statistics, India.

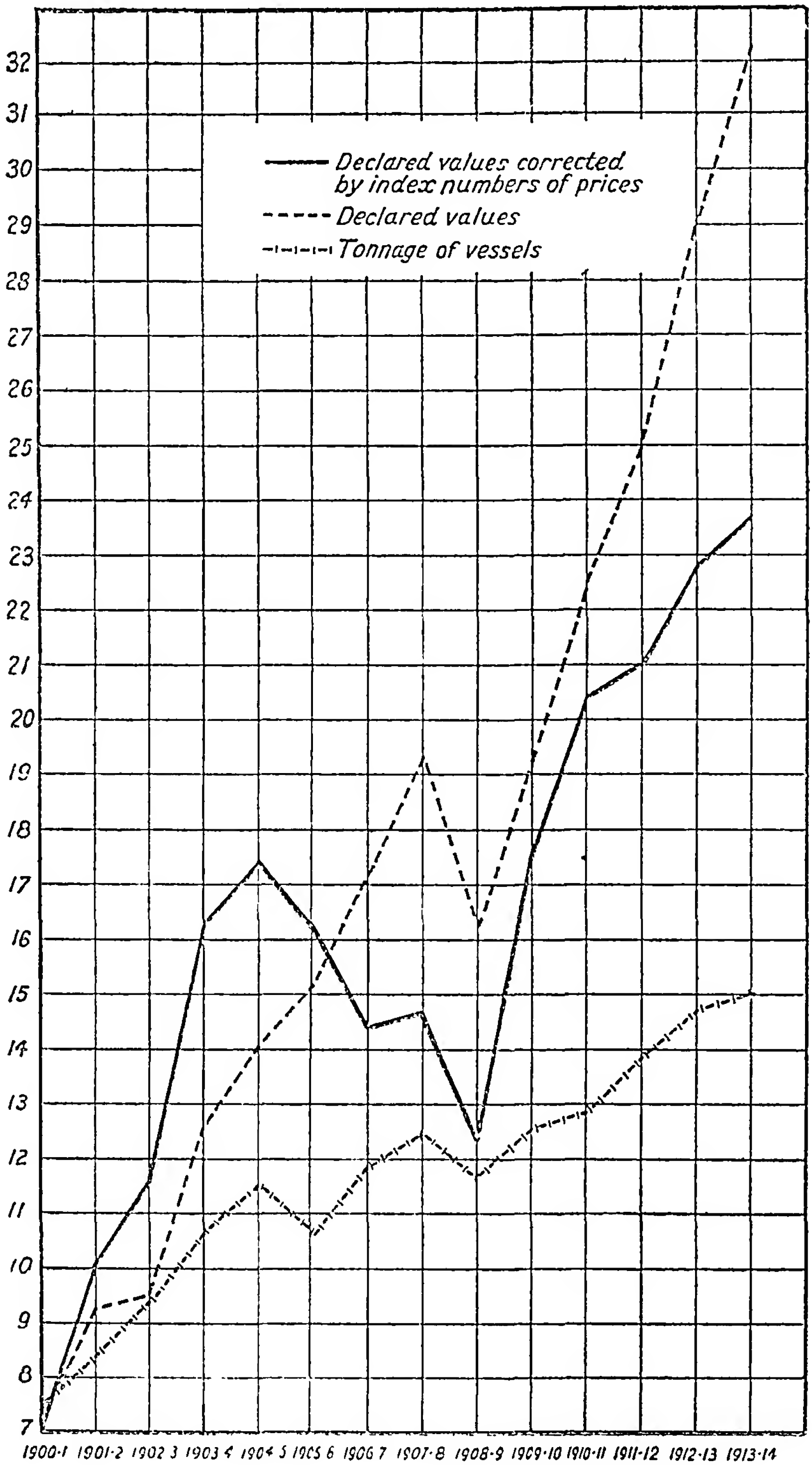
GRAPH NO. 1.—IMPORT, 1900—1913.



Graph No. 2.—EXPORT, 1900—1913.



GRAPH No. 3.—TOTAL TRADE IN MERCHANDISE, 1900—1913.



following figures, representing the tonnage of entrances and clearances of vessels to and from Indian ports, either with the actual values of trade or with our recalculated values, or better still, a mere glance at Graph No. 3, where they have been all diagrammatized, would show a substantial degree of correspondence between them with regard to their respective gradients and would further substantiate the accuracy of our general statement that the period covering the years from 1900 to 1913 was on the whole a period of remarkable expansion of our trade.

TONNAGE OF ENTRANCES AND CLEARANCES OF VESSELS TO AND FROM INDIAN PORTS.

Year.	Tonnage.	Year.	Tonnage.	Year.	Tonnage.
1900-01	... 7,321,460	1904-5	... 11,491,695	1908-9	... 11,594,135
1901-2	... 8,349,720	1905-6	... 10,573,237	1909-10	... 12,490,592
1902-3	... 9,359,989	1906-7	... 11,801,144	1910-11	... 12,754,914
1903-4	... 10,670,225	1907-8	... 12,388,106	1911-12	... 13,847,379
				1912-13	... 14,663,182
				1913-14	... 15,037,070

PROPITIOUS CONDITIONS OF COMMERCIAL PROGRESS

In our account we have, naturally enough, emphasized the succession of favourable monsoons, aptly described the "jugular vein" of Indian trade, as the most important cause of the progressive development of trade during the period. Undoubtedly Indian trade will always thrive or languish according to the character of the monsoons, but the prosperity of the period was no mere temporary outcome of a few good seasons. Conditions in other respects, too, more or less assisted in their own way this uninterrupted progress of trade.

In the first place, the embarrassments of violent fluctuations of exchange which, to quote O'Conor, aggravated the evils of a bad commercial year and lessened the benefits of a good year, were happily things of the past.[1] Secondly, speaking of other favourable circumstances during the period,

[1] See Chap. VIII for a full discussion of the point.

we cannot omit to mention that the fiscal policy still continued to be directed on the strict free-trade principle towards the greatest possible freedom of trade and its unhampered development. Between 1899 and 1903 anti-bounty duties were no doubt imposed on sugar to countervail the growing importation of such bounty-fed sugar from continental countries. Though the avowed reason for the adoption of such a measure was, in the particular case, protection of the domestic industry from the impact of unfair competition, yet it did not in the least signify any abandonment of the accepted free-trade principle. Even in the case in question the increased sugar duties did not in the least check the consumption of imported foreign sugar; their only effect was to change the sources of supply from the continental countries to Java and Mauritius. In 1910 the customs duties on liquors, tobacco, silver and petroleum had to be enhanced, but the great mass of duties was retained absolutely without any change as they were in 1896. The first two imports did not enter into the economy of the nation in any appreciable extent and are consumed by classes on which enhancement of prices must in any case fall with little weight. The effects of the slightly increased duty on petroleum were blurred by some exceptional conditions which prevailed for some years immediately after its imposition. Only the duty on silver had an unfortunate effect on China trade, already struggling against many odds. During the period, the question of Imperial Preference, brought to the fore by the Tariff Reform movement in England, also engaged the attention of India. Its adoption at the Imperial Conference of 1902, on which India was not represented, was the immediate cause of the question being referred in 1903 to the India Government for their consideration. The idea did not find favour either with the people or the Government in India. In 1907 when the principle was reaffirmed by the Colonial Conference of that year, the Indian authorities maintained the same attitude. To sum up, there occurred nothing during the period to deflect the country from the orthodox free-trade principle and hence from the path of unrestrained expansion of foreign commercial intercourse.

Lastly, we must not forget to refer to the simultaneous existence of great prosperity in all other countries as a contributory cause which reacted on Indian trade and furthered its progress. In fact, " the unity of the world's trade " as was remarked in the official review for 1908-9, " has never received a clearer demonstration than in the uniformity with which all countries felt simultaneously the impulse of enterprise and production which lasted for five years or more, and then the reaction that resulted from a general state of over extension." To this we may add, as a further proof of this unity, the fact of subsequent revival of trade almost everywhere at about the same time, and its generally buoyant course till the outbreak of the War.

As we write the above lines, a question naturally arises in our mind. Did India obtain her proper share of this growing prosperity of the world's trade ? In plain language, was the progress of Indian trade equal, or at least comparable, to the progress of trade in other countries ? Let us look at the figures in the table on pages 86 and 87.

TABLE.

(£,000 omitted.)

Countries.		1900.	1903.	% age + or − in 1903 compared with 1900.	1906.	% age + or − in 1906 compared with 1903.	1909.	% age + or − in 1909 compared with 1906.	1912.	% age + or − in 1912 compared with 1909.	% age + or − in 1912 compared with 1900.
India[1] ...	Imp.	50,852	56,549	+11·2	72,205	+27·6	78,040	+8·1	107,332	+37·5	
	Exp.	69,440	99,756	+43·0	115,625	+15·9	122,998	+6·3	160,899	+30·8	
	Total	120,292	156,305	+29·9	187,830	+20·1	201,038	+7·0	268,231	+23·4	+122·1
U.K.	Imp.	459,893	473,027	+2·8	522,786	+10·5	533,360	+2·0	632,903	+18·6	
	Exp.	291,192	290,800	− ·1	375,575	+29·1	378,180	+ ·6	487,223	+28·8	
	Total	751,085	763,827	+1·6	898,361	+17·6	911,540	+1·4	1,120,126	+22·8	+49·1
U.S.A.[2] ...	Imp.	173,025	209,992	+21·3	252,795	+20·3	267,009	+5·6	341,817	+28·0	
	Exp.	285,576	290,048	+ 1·5	357,907	+23·3	341,324	−4·6	452,150	+32·4	
	Total	458,601	500,040	+ 9·0	610,702	+22·1	608,333	− ·38	793,967	+30·5	+73·1
German[3] Empire (Wirtschafts-gebiet)...	Imp.	283,475	295,133	+4·11	394,749	+33·7	419,239	+6·2	525,661	+25·3	
	Exp.	226,727	246,551	+8·74	312,759	+26·4	324,215	+3·6	440,376	+35·8	
	Total	510,202	541,684	+6·1	707,508	+30·6	743,454	+5·08	966,037	+29·9	+89·3
France ...	Imp.	187,912	192,048	+2·20	225,092	+17·2	249,844	+10·9	329,232	+31·7	
	Exp.	164,348	170,092	+3·49	210,620	+23·8	228,724	+8·5	268,504	+17·3	
	Total	352,260	362,140	+2·8	435,712	+20·3	478,568	+9·8	597,736	+24·9	+69·6
Italy[4]... ...	Imp.	68,009	74,478	+ 9·5	102,669	+37·8	124,468	+21·2	148,077	+18·9	
	Exp.	53,530	60,698	+13·3	77,179	+27·1	74,676	−3·2	95,877	+28·3	
	Total	121,539	135,176	+11·2	179,848	+33·0	199,144	+10·7	243,954	+22·5	+100·7

TABLE (continued).

(£,000 omitted.)

Countries.		1900.	1903.	%age + or − in 1903 compared with 1900.	1906.	%age + or − in 1906 compared with 1903.	1909.	%age + or − in 1909 compared with 1906.	1912.	%age + or − in 1912 compared with 1909.	%age + or − in 1912 compared with 1900.
Russian Empire ...	Imp.	66,117	71,954	+8·8	84,517	+17·4	95,669	+13·1	123,687	+29·2	
	Exp.	75,622	105,680	+39·7	115,571	+9·3	150,699	+30·3	160,318	+6·3	
	Total	141,739	177,634	+25·3	200,088	+12·6	246,368	+23·1	284,005	+15·2	+100·3
China[5] ...	Imp.	32,760	43,111	+31·5	67,524	+56·6	54,339	−19·5	72,197	+32·8	
	Exp.	24,678	28,283	+14·6	38,917	+37·5	44,051	+13·1	56,543	+28·3	
	Total	57,438	71,394	+24·2	106,441	+49	98,390	+7·5	128,740	+30·8	+124·1
Japan and Formosa ...	Imp.	30,621	33,414	+9·1	43,952	+31·5	41,407	−5·7	64,828	+56·5	
	Exp.	21,500	30,317	+41	43,778	+44·4	43,043	−1·6	55,079	+27·9	
	Total	52,121	63,731	+22·2	87,730	+37·6	84,450	−3·7	119,907	+41·9	+130·1

N.B.—Imports are imports for home consumption (except in the case of India) and exports are exports of domestic production.

[1] Indian years are official years ending in each case on 31st March of the following year.

[2] Years ending 30th June. Figs. are exclusive of trade between the U.S.A. and Alaska, Hawaii and Porto Rico all through the period.

[3] German figs. include the value of ships and also the "Improvement Trade" for home account. Shipbuilding materials imported for the construction or repair of seagoing vessels, as also foreign goods shipped for use as stores on outgoing German vessels, have been included in the Special Imports since 1st March, 1906.

[4] Figs. include silver bullion.

[5] Figs. include imports into and exports from Hong Kong and Macao.

Any comment on these is superfluous. That in the world's race of progress Indian trade did not fall behind is only too evident from the foregoing table. The course of progress with regard to per capita trade will equally well bear out the same point. It will be observed from the following table that the percentage growth of per-head trade in the case of India was inferior only to that of Japan, Italy and China but superior to every other country's.

TABLE.

TRADE PER HEAD OF POPULATION.

(*Review of Trade*, 1913-14, p. 55.)

Country.	1900.			1905.			1910.			1911.			1912.			1913.		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
India ...	0	8	4	0	11	4	0	14	3	0	15	2	0	16	8	0	17	7
Russia ...	1	1	4	1	4	6	1	12	7	1	12	3	1	11	0	1	12	10
U.K. ...	18	5	0	19	0	2	22	7	6	22	15	6	24	10	7	25	14	10
France ...	9	1	2	9	16	10	13	10	0	14	6	0	15	1	4	15	9	7
Germany	9	1	0	10	8	6	12	8	6	13	7	9	14	13	0	15	7	7
Italy ...	3	15	2	4	11	0	6	2	7	6	7	7	7	0	10	7	1	9
U.S.A. ...	6	0	6	6	7	10	7	7	5	7	19	5	9	2	2	9	1	7
Japan ...	1	3	3	1	15	5	1	18	0	1	18	0	2	4	9	2	12	7
China ...	0	2	10	0	5	1	0	5	8	0	5	8	0	6	5	0	7	4

In this respect, therefore, the years 1900-1913 marked a very welcome improvement on the previous period 1883-1900, when, as may be within the recollection of the reader, our trade per head actually suffered a decline. The absolute increase of trade, however, whether considered by itself or calculated on the basis of per head of population, was, of course, relative to other countries, very small but on such points as this, concerning the comparative insignificance of our foreign trade, we have indeed very little to add to our observations which we previously made in similar connections.

CHAPTER V

Development of Trade During the War

(Period of setback)

GROWTH OF TRADE IN VALUE

The swelling tide of progress since the beginning of the present century was, as we remarked in the previous section, suddenly stemmed by the cataclysm of the World War. We can perceive clear and distinct marks of this arrested development from the recorded values of imports, exports and of total commerce summed up in the following table; it is not even necessary to allow for the effect of rising prices which greatly swelled the figures of value in order to bring out this primary fact.

TABLE.

(In lakhs of rupees.)

	Import (private) merchandise only. I.	Total import, including treasure and Government transactions. II.	Export (private) Indian merchandise only. III.	Total export, including treasure and Government transactions. IV.	Grand total II plus IV.
Pre-War average (1909-10 to 1913-4)	1,45,85	1,98,87	2,19,50	2,32,55	4,31,42
1913-4 ...	1,83,25	2,34,75	2,44,20	2,56,09	4,90,84
1914-5 ...	1,37,93	1,66,74	1,77,48	1,87,46	3,54,20
1915-6 ...	1,31,99	1,50,11	1,92,56	2,07,79	3,57,90
1916-7 ...	1,49,63	1,98,70	2,37,10	2,53,79	4,52,49
1917-8 ...	1,50,42	2,16,12	2,33,44	2,52,45	4,68,56
1918-9 ...	1,69,03	2,59,93	2,39,32	2,64,32	5,24,25
War average	1,47,80	2,15,97	1,98,32	2,33,13	4,31,45

From the above it is manifestly clear that our oversea trade lost during the War the position which it attained in previous years. Take any War year you choose and compare the trade in that year with 1913-14 figures, you always

observe a decline, it does not matter whether you consider imports or exports separately or together. True, in 1918-19, though merchandise imports and exports fell short of, yet total imports and exports, inclusive of treasure, exceeded the corresponding figures of 1913-14. We need not, however, on that account modify in the least our general statement about the setback of trade during the War. For in the first place it is on general grounds desirable to leave out from our calculation treasure especially during a period when specie movements were not free and so many other extraneous factors existed to complicate the situation. Secondly, while there were no imports or exports of precious metals on Government account in 1913-14, imports and exports of the same in 1918-19 were largely governmental operations for purposes unconnected with trade.

It may be reasonably argued that 1913-14 was an exceptionally prosperous year and no conclusion can properly be reached from comparison merely with that year. We have, therefore, struck averages for the five pre-War and five War years respectively from which it will appear that the average annual value of the total volume of trade during the second period was not only well below the level reached in 1913-14, but stood almost exactly at the point which represented the average yearly value of trade during the first. The above was generally true not merely in reference to the total value of trade but equally of the separate items constituting the total, which showed alike, if not in equal proportions, the adverse effects of the War. Speaking as we ought to do of merchandise transactions only, we notice that the average value for imports was only slightly in excess of the pre-War figure. The exports of Indian produce during the War were even more disappointing, the average value in this case being even less than that of five pre-War years.

THE ACTUAL VOLUME OF TRADE

If we now allow for the effects of the appreciation of the rupee brought about by the War, we shall more truly visualize the actual setback which trade suffered during the period.

The following figures of the value of oversea trade in merchandise, calculated by a rough and ready method on the basis of prices current in 1913-14, will show to what serious extent the War reversed the progress of our trade.

TABLE.

(In lakhs of rupees.)

Year.	Import (private), merchandise only.	Export (private), Indian merchandise only	Total.
1913-14	1,83,25	2,44,20	4,27,45
1914-15[1]	1,37,23	1,94,85	3,32,08
1915-16	1,04,75	1,86,95	2,91,70
1916-17	88,02	2,02,65	2,90,67
1917-18	71,28	1,86,75	2,58,03
1918-19	63,07	1,59,55	2,22,62

The total volume of trade, it is clearly manifest from the above, shrank to half its former dimensions, exports of Indian merchandise declined by 34%, and the retrogression, for special reasons of its own that we shall discuss later, was most pronounced in the import trade, which shrank to a third of its former volume. Some have emphasized the favourable balance of trade, which India apparently had all through the War, as an evidence of the great prosperity of her commerce during the period.[2] It passes our comprehension why a straightforward course, as we have chosen here, should be avoided, and shelter should be sought behind the blind alley of the balance of trade to prove the supposed prosperity which our trade enjoyed. It is a pity that the hoary-headed mercantilistic fallacy raises its head again and again, however

[1] The 1914-15 figures, calculated item by item on the basis of 1913-14 prices, exactly represent what the values of the trade would have been, had prices remained where they were in 1913-14. The rest are calculated on the basis of official index numbers of 61 articles of import and 50 articles of export.

[2] Many are indeed the writers, both official and non-official, who have expressed this opinion. It is impossible to name them all. See for instance *Review of Trade* during the War period for frequent expressions of this view. Among non-official opinions we cite Mr. Dalal, who in his *Minority Report on Indian Exchange and Currency* in 1919, p. 1, strikes more or less the same note.

frequently it may have been rapped in the past. The retrograde tendency of our commerce during the period of the War is true beyond any shadow of doubt and no amount of sophisticated arguments or statistical jugglery can disprove or conceal it.

ADVERSE FEATURES OF COMMERCIAL DEVELOPMENT

There are again others who seem to believe that the progress of trade during the years before the outbreak of the War was far too rapid and, war or no war, the flood tide would in any case have been followed by the ebb tide. It is true that a period of intense industrial and commercial activity has in the past invariably alternated with a more or less long-continued stage of depression, and such phenomena tend to distribute themselves with a certain uniformity of interval. At the same time, however, the fact is indisputable that the fluctuations do not occur with the regular sequence of a law. Not unoften in the past the downturn in the industrial tide has appeared either before or long after what may have been ordinarily considered its due time of arrival. No one can, therefore, forecast with any degree of accuracy the exact or even the approximate hour when the wheel begins to turn at the end of a period of prosperity, and certainly it is idle to argue that a period of halt and retrocession was impending at about the time of the War simply because the years which went before were characterized by great progress and buoyancy in industry and commerce.

During the first four months of 1914-15, when the War had not yet broken out, the figures of Indian trade were in fact a little below normal, and a similar decline was perceptible in the value of the trade of the United Kingdom also. The fact was looked upon by the above-named as an indication of the approach of the period of declining activity in trade. It is, we hardly need point out, too slender a basis to afford any strong foundation for this sort of lugubrious talk. There is hardly any reason to suppose that the tide, because it was no longer moving forward at the moment, should have thereafter begun to recede. On the contrary everything seemed to point to the opposite conclusion. In

Europe and America manufacturing industries were making giant strides. From the evidence of new projects already undertaken or in their stage of gestation there can hardly be any doubt that, so far as India was concerned, she would have been called upon to supply increasing quantities of raw materials and foodstuffs to feed the machines and the industrial population of Europe and America. With large improvements already accomplished by the Government in the sphere of agriculture, in pursuance of its new agricultural policy adopted since the opening of the present century, and with still further improvements which would have followed as a matter of course, India, it is only reasonable to infer, would have found it within her means to respond adequately to the demand and to obtain her legitimate share of the world's trade.

It is true that the character of the monsoons during the War years was not always satisfactory, and quite often good seasons alternated with bad ones. But taking one year with another we cannot say that they were on the whole not favourable for the continuance of agricultural prosperity. Thus trade during the four pre-War months was quite buoyant, even though a little below the previous year's mark, notwithstanding a partial failure of winter rains in the United Provinces and such other adverse factors as "continuance of bank failures in Northern and Western India and a glut of piece-goods, circumstances which were largely a legacy from the previous year." Since the subsequent south-west monsoon was quite satisfactory, it is incontrovertible that it was the outbreak of the War which frustrated the almost certain prospect of what was going to be a year of still more prosperous trade. Although in 1915-16 rainfalls were excessive, sometimes with disastrous effects, in Assam and in certain areas in Bengal and the U.P., and deficient on the other hand in the western parts, yet timely rains during the months of September and October not only saved the situation but improved it very much for the better. If again an insufficient rainfall in the following winter made the prospects of trade somewhat gloomy, the following monsoon was an ideal one from every

point of view, whether of regularity, or of duration, or of uniformity of distribution. As the south-west monsoon in the following year was equally favourable, an intervening subnormal winter rainfall did not at all appreciably affect the fortune of agriculture. The opinion can, therefore, be safely hazarded that but for the rude check sustained by the devastating effects of the War, the years following 1913 would undoubtedly have constituted an age of further progress, though it may not be so certain whether or not the advance of previous years, if continued, would have been at the same rapid pace.

The reversal of progress was not the only detrimental effect of the War on Indian trade. Under the peculiar conditions which existed during the period, when, as we shall see, imports were extremely difficult to obtain and exports prevented from realizing their full prices by various forms of control instituted, we had to carry on our commerce at increasing disadvantage to ourselves. To put it in more precise language, the equation of exchange as the War went on moved more and more against us. Since the beginning of the present century till the outbreak of the War, the equation of exchange, as the independent investigations of Robertson, Keynes and Taussig have shown,[1] was moving in favour of India, as of every foodstuffs and raw materials exporting country. It was with the outbreak of the War that the scale began to turn heavily against us. From the following index figures of the prices of imports and exports, however, we can easily discern—an intelligent reader may have already scanned it from Tables I and II of this chapter —that the prices of imported goods throughout the War ascended far more rapidly than the prices of exports, which clearly mean that we were bartering away our commodities on terms unfavourable to ourselves.

	1913–14	1914–15	1915–16	1916–17	1917–18	1918–19
Imports ...	100	101	126	170	211	268
Exports ...	100	102	103	117	125	150

[1] *Vide* Roberston, *A Study of Industrial Fluctuation*; Keynes, *Economic Consequences of the Peace*, p. 8, also *Economic Journal*, Vol. XXII, p. 630 *et seq.*, and Vol. XXXIII, p. 476 *et seq.*; Taussig, *International Trade*, Ch. 21, also *Economic Journal*, Vol. XXXIV, Paper on "Great Britain's Foreign Trade Terms after 1900."

Hindrances to Development

ON THE OUTBREAK OF THE WAR

On account of the extraordinary uncertainty as to the future, which governed the world during the beginning of the War, and more especially for complications introduced by the universal financial dislocation, and the dangers from hostile squadrons to which shipping was exposed all along commercial routes, the first pressure of the revulsion proved disastrous in the extreme for the world's foreign trade. The full extent of its effects on Indian trade, scarcely revealed by the 1914-15 figures as a whole, was to be gauged by concentrating our attention on the eight war months of the year, when exports and imports of merchandise dropped 43 and 34 per cent. respectively as compared with the corresponding figures of the previous year. After the first shock of the War passed off, and under cover of naval protection soon provided by the Allies along the commercial route east of Suez, Indian trade gradually settled itself down to a new, though unstable, equilibrium brought about by the special and temporary circumstances existing during the War. Chiefly under the stimulus of intense demands from belligerents and neutrals which arose from the peculiar conditions of the War itself, there followed a growing revival of the export trade. Still, in every way trade had to struggle on its course against enormous odds and the import trade especially was hard hit by the limitations imposed by the war conditions. It is only when we come to know what these conditions were like that we realize why the Indian trade shrivelled up as it actually did.

DURING THE CONTINUANCE OF THE WAR

(1) *Circumscribed area of commerce.*

In the first place the operations of war considerably restricted the zone of commerce itself.

(*a*) *Cessation of commerce with enemy countries and their occupied territories.* To begin with, immediately on the

outbreak of the War, all trade with or in the interest of hostile countries was by a mere executive fiat brought to a stop and thus important channels of trade were suddenly blocked. The cessation of intercourse with Germany was especially a severe blow to Indian trade. Next only to Great Britain's, though at a considerable distance from it, was the importance of the German trade from the point of view both of our exports and of our imports. On an average of five pre-War years, 1909-10 to 1913-14, we sent 10% of our exports of merchandise to Germany and received from her 6·4% of our imports in exchange; in other words, Germany participated to the extent of 8·6 % of our total merchandise transactions with foreign countries. Our commerce with Germany was not only considerable but of rapidly growing importance. The sudden disappearance beyond the bounds of our commerce of such a country naturally created, especially in certain lines of trade where she played the most dominant rôle, a hiatus which was not easy to fill.

The fact must not again be lost sight of that the area with which trade was thus banned did not remain confined within its original bounds but largely expanded, firstly, as other countries joined their forces with those of the Central Powers, and secondly as large territories gradually came under the occupation of the enemies. Let us recall here at the moment that during the War the hostile powers came to possess by successive stages the whole of Belgium, Servia, Montenegro and Poland, large tracts of Russia, northern France comprising the chief coal and iron fields and the rich manufacturing districts, and lastly Rumania with its precious oil deposits. It is true that in the beginning some amount of trade percolated through the contiguous neutrals to the adversary countries, but gradually with the intensification of the Allied blockade the leakage of commodities was reduced almost to nothing. What the severance of trade relations with enemy countries meant for our commerce will be brought home when we come to know that the total volume of trade with them which was valued at £38,006,000 in 1913-14 or £28,600,000 on an average of five pre-War years,

collapsed to £1,349,000 in 1915-16 and to an annual average of £70,000 in the following three years.

(*b*) *Virtual stoppage of trade with such allies as Russia.* Again when the " narrow bottlenecks of the Baltic and the Black Sea were corked and sealed " by Germany and Turkey respectively, commerce with Russia was extremely difficult to carry on. The importance of that country as a market for certain Indian products, if not as a source of supply, was not altogether to be despised. Goods from India as from the East generally could at first flow freely through Vladivostock, but eventually the route proved very inadequate and unsatisfactory. In the first place, the transport across the seas was entirely uneconomical owing to absence of return cargoes and the long ballast voyages consequent on it. Secondly, not only was the capacity of the port very much limited, but the internal transport system was too under-equipped to bear the heavy strain rendered necessary by distribution from the port over the enormous distances involved. It is hardly necessary to add that during the last days of the War, on account of the *boule versement* caused by the Bolshevik *coup d'etat*, even the little trade which was forced through the narrow channels provided by the White Sea, Vladivostock, and the Swedish transit routes was brought to a close. From £3,947,000 in 1916-7 total Indian trade with Russia speedily dropped to £578,000 in 1917-18, and in the following year the only transaction recorded was an importation of £3,000 worth of goods from that country.

(*c*) *Restricted trade with neutrals.* Thus international intercourse was at first completely cut off with the enemy countries, and then in gradual succession with other territories as they came under the occupation of the opponent powers. By the operations of hostile forces it was rendered well-nigh impossible with such inconveniently situated allied countries as Russia. Trades with neutral countries, too, when they were adjacent to the boundaries of some enemy countries, were constantly interfered with by measures of contraband and of blockade. The enumeration of contraband goods was frequently changed and with the growth of

the economic concept of the War it was considerably elaborated. Similarly, the rationing system which, either by agreements or by embargoes, aimed at bringing down the trade with the contiguous neutrals to the minimum compatible with their ante-bellum normal domestic consumption, had its screw increasingly tightened up. Since October, 1917, the restrictive policy was followed up by a general embargo of all exports to northern neutrals, though in particular instances some relaxations were subsequently made on the basis of mutual negotiations.

(2) *Diminished scope for commerce.*

Secondly, not only was the ambit of commerce thus narrowed down but even within this restricted sphere there was diminished scope for it. This was so for two main reasons.

(*a*) *Impoverishment of European belligerents and neutrals.* It is not perhaps necessary to dwell here in detail on such obvious facts as the unquestionably big drop in the production of wealth which must have occurred during the War, at any rate so far as the European belligerent countries were concerned. Not to speak of the actual destruction of wealth in conquered and devastated areas, the War was responsible for considerable diversion of productive means of every fighting country, not, however, to produce wealth but purely for destructive purposes. Then again, on account of the concentration of the national energies primarily on war needs, even the much curtailed production for ordinary consumption had necessarily to be carried on under more inefficient conditions. The impoverishing process became more accentuated as the War went on, drawing more and more of the resources of the warring countries. France and Italy had their energies almost entirely absorbed by military preoccupations. The former, as we mentioned before, had besides lost her richest coal and iron districts and the latter was especially handicapped by the shortage of coal, which compelled many of her factories to shut down. They had, therefore, very little to spare even for the payment of their essential war imports. Great Britain was less embarrassed,

but it must be borne in mind that it was on her economic strength that other allies increasingly depended. Conditions, therefore, almost equally forbade her to manufacture and export on any large scale for ordinary trade and consumption. To complete the picture we should say that on account of their close economic interdependence on the belligerents, the productive capacity even of the European neutrals suffered deterioration and the supply of commodities there was scarcer than usual. But it is hardly necessary to add this, for the fact that the European belligerents, including almost all the leading industrial countries of the world, were either wiped off the commercial map, or their exportable surplus severely curtailed, was in itself the gravest situation conceivable for the Indian import trade.

(*b*) *Trade restrictions.* (*i*) *External.* In the next place it must be remembered that the peculiar conditions of the War brought in their wake a train of rigid restrictions on imports, exports and industries in the warring countries. Establishment of new ventures or enlargement of old ones was often disallowed and actual industrial operations frequently interfered with, in order that productive resources might be conserved to the utmost for war needs. The necessity to protect the supply of war materials and such other articles of primary needs dictated the adoption of a form of rigid control over exports and even the internal use of many commodities. Finally, extreme difficulties of tonnage and of finance, but especially of the former, rendered it imperative to cut down all trade nearer and nearer to the bare bones of naked necessity. It was in fact from the very beginning that the Governments had to interfere at every turn with the smooth working of the complicated machinery of production, transportation and distribution. More and more, as the War progressed, the "strong hand of the State intervened, untrammelled for the time being by legislative checks, and asserted its power of possession, control, direction and regulation in every sphere of trade." A writer truly said, "The trade restrictions of the War in their simple chronicles would fill volumes." In the main they represented, so far as foreign trade was concerned, various restrictions ranging

from absolute prohibition of exports to prohibition covering a system of licences, rationing, differential prices for foreign and domestic markets, export duties and then high tariffs on imports or deliberate exclusion of luxury goods. Trade was thus fettered not in belligerent countries only. Examples of such restrictions were to be had by the score from all parts of the world, including neutrals not contiguous to combatants.

Let us pause here for a moment to consider how vitally was the fortune of Indian commerce touched by the circumstances described above. India's dependence upon Great Britain and other western manufacturing countries generally for the supply of many of her essential needs is a notorious fact. It may not, therefore, be difficult to imagine the embarrassment which was caused when the sources from which she used to derive her imports were not only fewer but even those few were largely dried up, and in addition numerous dams were placed across them. The pernicious effects did not stop with the impoverishment of our import trade, but in turn they reacted upon the industries of the country generally and thus eventually on the export trade, already in plight through loss of many of its former markets. For every industry depended almost wholly upon foreign supply not merely for all its machinery and plant, the exports of which as of every other product of iron and steel were strictly controlled by other nations, but even for the stores required for day to day working, many of which were for similar reasons insufficiently available. If the exports were thus indirectly affected by difficulties of importing a good deal of our essential needs, we have actually to enumerate the multifarious restrictions adopted in foreign countries to illustrate the many sources of direct interference with the course of our export trade. For obvious reasons such an attempt is not feasible here. Suffice it to say that such commodities as jute, tea and coffee in the shipments of which India was so largely interested had no free access, and that, too, in such an important market as the United Kingdom.

It is true that countries in more favourable positions, as America and Japan, tried their best to fill in the void created

by the above circumstances. They supplied as never before the needs of our market and simultaneously absorbed increased shares of what we had to spare. America increased her trade with us from a pre-War average of Rs. 21,39 lakhs to a War average of Rs. 37,04 lakhs. Compared with an average value equal to Rs. 21,39 lakhs in ante-bellum years, the Indo-Japanese trade bounced up during the War to an average of Rs. 40,61 lakhs. Thus they succeeded as far as success was possible; yet the leeway to be made up for was far too considerable to be accomplished by the efforts of one or two nations, however enterprising or resourceful they may have been.

(*ii*) *Internal*. We have hitherto spoken only of the barriers thrown in the way of our commerce by foreign countries, but there was a good deal of interference with the course of our trade in our own land. The import trade, severely hit for reasons stated above, was further saddled on its back with a much higher scale of import duties, rendered unavoidable by the financial pressure of the War.[1] So far as the export trade was concerned, apart from restrictions, already referred to, as regards trade with contiguous neutrals, there were imposed new export duties on jute and tea in addition to the old one on rice, and besides it was necessary to control the exportation of a few articles on account of their more urgent requirements at home. Further, trade in certain commodities had to be artificially diverted from their habitual markets to the U.K. or allies or countries engaged in making munitions for them. It must, however, be added that in respect of commodities urgently required for the prosecution of the War, both the Allied and the Indian Governments co-operated, and tried their utmost to facilitate such exports. Although this special requirement of munitions fostered the export trade in certain directions, yet it was only a partial and wholly inadequate compensation for the loss inflicted in other ways, and, further, even in

[1] The general rate of 5% import duties, left unchanged ever since its imposition in 1894, was raised to half as much again; the lower rate on certain descriptions of articles as iron and steel was considerably enhanced; the number of commodities on the free list was largely cut down and many articles of less urgent needs were charged duties at specially high rates.

such cases it was not possible to reap the full benefit on account of dearth of tonnage. This scarcity of bottoms was, in fact, the most formidable of all difficulties, and the restrictions themselves, as we had occasion to note elsewhere, were in a large measure dictated by this contingency. To this point we now turn.

(3) *Scarcity of tonnage.*

The unprecedented and growing scarcity of tonnage during the War was the result of a complication of several factors. At a time when the requirements of shipping were more than ever on account of heavy demands for the navy and for military traffic, long detours frequently necessary to avoid hostile attacks and the substitution of trans-oceanic voyages for shorter ones to supply the European countries cut off one from the other, there occurred not merely a serious shortage of supply but an equally embarrassing deterioration of their efficiency. We shall briefly indicate here the causes of this diminution of supply and of the loss of efficiency.

On the outbreak of the War sea-borne commerce was for some time threatened with complete stoppage for total lack of means of transport. Owing to the dangers of destruction to which shipping was exposed on the seas, the undertakers were reluctant to provide insurance facilities. The various governments concerned were, however, prompt to act and assist commerce out of the dilemma either by direct provision of such facilities or by grant of subsidies to private enterprises. Once adequate insurance facilities were assured, ships as a general rule ventured out freely. Except at times of very great alarm when for a time they were held up, we cannot on the whole say that scarcity of tonnage was in any appreciable manner connected with hostile naval operations.[1] The

[1] It is not intended to minimize, much less to ignore, the detrimental influences of hostile naval operations on our commerce. We have not forgotten how at times the adroit manœuvres of some elusive raiders, as of the *Emden* and the *Konigsberg* in the early days of the War, and latterly of the *Wolf*, had for a time disastrous effects on all commercial operations. Nor have we lost sight of the very grave situation which arose with the entrance of Italy into the War and the consequent shifting of the submarine raids on the Mediterranean. It must on the other hand be con-

real causes were altogether different, and they were not far to seek. There was first of all the loss of the hostile mercantile marine confined to their own and neutral ports. Leaving apart the case of the United Kingdom, Germany had the largest share in our carrying trade, and Austria-Hungary came immediately after. Between them they supplied 15·79% of the total tonnage which entered to and 14·57% of the aggregate which cleared from our ports in 1913-14, and their disappearance was not, therefore, an altogether negligible factor in the situation. Besides, a certain amount of Russian, British and French tonnage was also locked up in the Baltic and the Black Sea. The far more important causes, however, were firstly the impressment by the Allies of vessels for military purposes. Thus, on account of the withdrawal of the fastest and the best for the navy, there was inflicted a loss far heavier than was to be computed merely on a quantitative basis. Secondly, there were large destructions by submarines.

On 3rd May, 1916, Lord Curzon described from his seat in the House of Lords how over 43% of the British seaworthy vessels was under requisition for the naval, military and essential civil needs of the Allied Governments, 14% was employed for transportation of foodstuffs and munitions for the Allies, and the rest, though still under private management, were employable at any moment in their interests. By the middle of 1917 all ships over 500 tons were under requisition and thus from small beginnings there was gradually established an almost complete control over British shipping which, be it noted, constituted half the gross tonnage of the world. Not merely among the combatants,

fessed that however serious the disturbances may have been for the time being, they never lasted long. The surface-raiders, it will be recalled, had all short-lived careers of mischief, and the convoy system soon adopted proved a fairly effective safeguard against the wanton ravaging of the submarines. (The view is based upon a study of two volumes of Fayle, *Seaborne Trade*, which is an authoritative history based on official documents, of the effect of naval operations upon sea-borne trade during the War.) Further, the safety of the Suez Canal was never seriously threatened. The Turkish attack in the beginning of 1915 was easily repulsed, and, on account of constant vigil, mine-laying was never quite successful there. On the whole, therefore, the security of the Indo-European route of commerce was fairly kept intact by the Allied Navy.

where control was necessarily all pervasive, but in almost every country, shipping, at least that part of it which was engaged in the supply of national needs, was under State control. Further, Great Britain, through its dominant position as a supplier of bunkering coal in the maritime world of Europe and Africa, was able to commandeer a substantial fraction of neutral shipping and her example was followed by America after she had joined the War. If the ordinary needs of commerce had thus to be starved of ships in the interests of the more urgent needs of war, nothing was probably more instrumental in bringing about this tonnage famine than the ravages of submarines with which replacements, despite world-wide attempts at rebuilding, tried in vain to keep pace. The problem was still further complicated by the existence of other factors. Repairs were difficult and involved enormous delay on account of the overcrowding of the shipyards for war works and owing to the shortage of labour. This, while accentuating the scarcity of bottoms, simultaneously kept afloat a number of ships working under less efficient conditions. Again, the development of new and roundabout routes often involved long ballast voyages which prevented proper utilization even of the available cargo-carrying capacity. Last, but not least, there was in every land severe congestion of the ports, which was at once the cause and the effect of world-wide redirection of trade and shortage of freights.[1]

The situation in the shipping world, so far as it affected India, may be best studied from Tables II and III of the Appendix. One glance is enough to show the prodigious rise in maritime freights throughout the period. Speaking generally we may say by 1915 freights from all Indian ports to Europe and America were in round figures thrice as high as the 1913 level, and by 1917 they ranged from 9 to 13 times

[1] The congestion was brought about by the following: (1) Replacement of shorter voyages by long distance voyages which necessitated the use of more ocean-going vessels with the effect that concentration at the bigger ports was increased. (2) Allotment of certain harbours, either exclusively or in parts, for naval and military use. (3) Accumulation in the docks of military stores and prize cargoes. (4) Diminution of facilities for loading and unloading, requisitioned for naval and military needs

the pre-War normal rate.[1] During the following year they soared higher still, though in certain cases a reverse tendency just began to manifest itself. Not only were the quotations atrociously high but sometimes they were purely nominal, representing few or no actual transactions. In the *Review of Indian Trade* for 1916-17, for instance, it was significantly remarked that the word " no ships " was writ large on every page of the year's trade history. The freights for the Far East, too, went up enormously, though not always to the same extent as freights to the Western ports. Besides, on those routes subsidized Japanese companies afforded to carry some traffic at comparatively lower rates.

(4) *Subsidiary causes.*

Over and above the chief deterrent factors enumerated above, there were numerous other subsidiary causes which from time to time and to a greater or less extent hindered the development of Indian trade. It is impossible to narrate them all here. A brief reference must, however, be made to the difficulties which centred round the monetary events of the period. In the opinion of not a few they were supposed to have been fraught with very grave consequences for Indian trade. We put off a specific discussion of this point to the relevant chapter on Currency and Trade. Here we shall only briefly indicate our general conclusion that among the several causes which impeded the growth of Indian trade during the War, the currency and exchange troubles occupied only a minor and inconspicuous place with only occasional and transient embarrassing influences on the course of trade.

A COMPARATIVE VIEW

From the above long survey it would at once appear that the adverse conditions which hindered trade development

[1] Only in the case of tea there seemed to have been a very moderate increase at least till 1916 and even in 1917, when freights for this article rose, they did not rise in anything like the same proportion as the other commodities. The exceptional circumstances were to be explained by the existence of a five-year contract dating from 1912 between the Liners' Conference and the Indian Tea Association, which tied down in a large degree the hands of the former in raising the rates.

in India were nothing peculiar to India but existed all the world over. When the whole of the civilized world was thus "groaning and travailing in one universal shortage of materials and dislocation of the industry and the exchanges," not only would the retrogression of Indian trade appear nothing strange, but to expect anything to the contrary would seem absurd. Yet it would be a mistake to conclude like this. There is no reason to suppose that the impacts of the adverse factors fell with equal forces upon every country; on the other hand we shall presently see more than one country, Canada, U.S.A., Japan and Argentina, for instance, had a spell of abounding prosperity during the War. Let us compare the figures in the table on the next page, which show the imports and exports of the more important countries during the War.

The conclusion that emerges from the above table is best expressed in the words of a writer thus. "An examination of the proportional loss or gain of the principal countries . . . leads to the conclusion that India has been one of the worst sufferers from the War, so far as foreign trade is concerned. Her import trade suffered more than that of all the other countries excepting Russia and Australia, and her export trade also suffered more than that of all the other countries except the United Kingdom, France, Russia and Australia. India thus shares with Russia and Australia the unenviable distinction of being hit hardest in trade matters, and this proves that the argument that the trade of agricultural countries is least affected by a war is not applicable in her case."[1]

Now why did India suffer more than most other nations? Why was her foreign trade as adversely affected as that of Russia, a country which, as we all know, was practically hemmed in on all sides with her main channels of trade cut off? During the War the problem of tonnage presented the gravest difficulty, and the extent to which it was available for a country had a most decisive effect on the volume of its trade. This was especially so in the case of agricultural countries like India interested in the shipment

[1] Panandikar, *Economic Consequences of the War for India*, pp. 53-4.

TABLE.

IMPORTS AND EXPORTS OF MERCHANDISE OF SOME PRINCIPAL COUNTRIES.

£ (million).

Countries.	Import.						Export.					
	1913.	1914.	1915.	1916.	1917.	1918.	1913.	1914.	1915.	1916.	1917.	1918.
U.K. ...	768·7	696·6	851·9	948·5	1064·2	1316·1	634·8	562·2	483·9	603·8	596·8	532·4
France ...	—	—	441·4	606·4	652·5	892·1	—	—	150·3	194·3	153·5	188·9
Italy ...	145·5	116·9	188·1	335·6	559·6	641·5	100·2	88·4	101·3	123·5	132·3	133·8
Spain ...	47·2	42·0	48·3	51·2	53·1	24·4	39·9	35·2	50·3	55·1	52·1	37·9
Switzerland	76·8	59·1	67·2	95·1	—	—	58·0	47·7	66·8	97·8	—	—
Sweden ...	46·6	40·0	62·9	62·7	63·3	—	45·0	42·5	72·5	85·7	86·5	74·4
U.S.A.[1] ...	362·6	378·8	334·8	439·6	531·9	589·1	485·7	465·9	553·7	866·7	1258·0	1183·9
Russia[2] ...	1374·0	1098·0	1114·0	1153·0	—	—	1520·1	956·1	397·2	402·0	—	—
Argentina ...	—	64·5	61·1	73·2	76·1	96·2	—	80·6	116·4	114·6	110·0	165·3
Brazil ...	—	35·4	30·1	40·4	44·5	52·8	—	46·8	53·9	56·5	63·0	61·2
Japan ...	72·9	59·6	53·2	75·6	103·6	166·8	63·2	59·1	70·8	112·7	160·3	196·2
Canada[3] ...	—	633·7	587·4	542·1	873·4	962·5	—	479·0	490·8	882·9	1375·9	1586·2
Australia[4] ...	79·7	39·8	64·4	77·5	76·2	60·8	78·5	37·9	60·6	74·8	98·0	75·0
Egypt ...	—	21·7	19·3	30·9	33·2	51·2	—	24·1	27·0	37·5	41·1	45·4
India ...	127·5	96·6	92·1	106·8	109·6	125·7	166·0	121·4	133·0	164·9	163·3	170·2

[1] Years ended June 30th.

[2] Figures represent millions of roubles, one million roubles being equal to £105,735 7s.

[3] Years ended March 31st. Canadian imports are imports for home consumption. Values, both of exports and of imports, are in terms of million dollars.

[4] Values are for imports and exports, inclusive of bullion and specie. 1914 figures are for first six months only. In 1914 the trade year was changed from the calendar to the fiscal year ending June 30th.

of bulky exports and importation of manufactured commodities in exchange. The nearer such a country was to Western Europe, the great source of demand for raw materials and foodstuffs and of supply of finished commodities, the less was its shipping difficulty and the more easily could it ship its own surplus and procure its own needs. Hence it was that the proximity of the U.S.A., Argentina, Brazil and Canada to Western Europe stood them in good stead during the War. On the other hand the unfavourable geographical situation of India far away from that region was a severe handicap for her, not easily surmounted. The plight of the Australian trade, too, was largely accounted for by this geographical factor. Secondly, essential foodstuffs and munitions constituted the chief demands on trade during the War and more and more did international commerce tend to limit itself to commodities of this kind. Now India's position as a supplier of foodstuffs was not comparable to that of new, undeveloped and sparsely populated countries as Canada, or Argentina or even of the U.S.A. The whole problem of food exports in her own case was essentially complicated by a more vital issue, namely, the need of protecting the poor masses against the relentless operations of the forces of supply and demand, and this, as we previously observed, led to restriction in various directions over the exportation of foodstuffs. In the supply of munitions, India made heroic efforts, yet it was not given to her to turn to full account the opportunity that presented itself in this respect. Notwithstanding her wealth in raw materials, dependent as she was on European sources for the supply of many of her essential equipments and technical experts, which became difficult to obtain, her power to expand exports in this direction was quite limited. The secret of the phenomenal success of Japan in the supply of munitions and various other manufactured commodities to Europe, in spite of her more unfavourable geographical situation and her large dependence on foreign supply for raw materials, lay in the fact that she was for many years past consciously and steadily planning forward her industrial development so that, when the opportunity came, she was not found wanting.

Thus, for one reason or another, Indian commerce was especially impoverished during the War.

This question of the supply of munitions from India by a natural transition brings us to the consideration of an aspect of India's commercial development during the War which was probably its one redeeming feature. The growing and insistent demand upon India for the supply of war munitions, which, we may here incidentally note, hardly excluded any article that ordinarily enters into civil consumption, naturally encouraged the establishment and growth of various forms of domestic manufacture. The failure and shortage of supply of many essential commodities of civilized existence, which in previous years we used to receive from overseas markets, demanded with equal imperativeness and stimulated in an equal manner the industrial development of the country. The Indian Government awoke to the new sense of emergency and rendered the utmost help it could afford in order that the pressing needs of the moment might as far as practicable be satisfied and that the opportunity might not slip by without any permanent result. The organization of the Munitions Board during the War and its admirable activities towards acceleration of industrial development are matters of detail which we have to leave out here. For our present purpose we shall only note that whereas during five years before the War articles, wholly or mainly manufactured, formed on the average 76·6% of imports and 23·6% of exports, the corresponding figures during the War were 73·4% and 32·1% respectively. Foreign trade statistics, as is almost invariably the case, can only be a rough and insufficient index of the actual measure of industrial development which took place during the period. A fall off of 3·2% in the proportion of manufactured imports, and a rise of 8·2% in the ratio of manufactured exports within the short space of a few years cannot, therefore, be despised as trifling. On the contrary we cannot but regard this as a clear enough indication that there was a notable improvement in this direction. Even here, as we suggested above, the result would appear to be much less encouraging, if we compare our attainments with our opportunities or

with the achievements of Canada or Japan. The former, for instance, increased the proportion of her manufactured exports from 19% in 1913-14 to 43% in 1917-18 and the latter expanded the exports of her manufactured goods from 27% in 1913 to 44% in 1918.[1]

[1] It is, of course, necessary to be particularly careful in a comparison of this kind. For the term "manufacture" does not possess exactly the same connotation in the trade returns of the countries which are at present objects of our comparison. It is, however, to be noted that in the case of India the term is taken in a sufficiently wide sense, including within the inventory all commodities which are mainly manufactured. On the other hand the Japanese figures quoted refer to the strictly restricted category of wholly manufactured articles only, so that, if anything, our comparison here tends to minimize the range of difference existing between India and Japan in this respect. Speaking with reference to Canada, we may say that whatever differences there might have been in regard to points of detail, there existed, however, no such important divergence in regard to the use of the term in that country, compared with its use in India, so as to affect the substantial accuracy of the impression which it is our object to convey here, namely, that Canada far more than India scored a remarkable advance during the period of the War as regards exportation of manufactured stuffs to foreign countries.

CHAPTER VI

Development of Trade After the War

I

1919-20 TO 1923-24 (PERIOD OF SETBACK CONTINUED)

With the Armistice there was ended a period of unprecedented stress and strain on the world's economic life. Not a few confidently anticipated a quick return of normal conditions and even of prosperity. Such optimism was soon rudely shaken. The aftermath of the War proved in many respects worse than the War itself.

DETERRENT FACTORS

It was not to be supposed that the recovery from a state of economic exhaustion brought about by long years of maddening strife could in any case have been otherwise than extremely slow. Unfortunately, again, the transition to the normal basis of economic life in Europe was further hindered and delayed by shortsighted diplomacy and misguided economic policy. The Treaty of Versailles not only made no provisions for the economic rehabilitation of Europe but on the contrary it was instrumental in swinging back the forces of economic organization of Europe yet farther from equilibrium. We need not recount here the story of the mad policy of vindictiveness which the victors in the intoxication of their success pursued for a time against the already exhausted vanquished and thus dragged them down the path of economic bankruptcy. It was not long before the pursuers of such a grabbing policy were themselves hoist with their own petard and the consequence was that the conqueror

and the conquered became eventually involved in a common economic ruin.

The recovery of the world's trade and to a greater extent of the Indian largely depended on Europe's capacity to restart the circle of exchange ; but for reasons given above she was unable to supply a sufficient stream of exports even to pay for her own necessary imports. Conditions in other respects, too, were not favourable for the revival of the world trade. Control and prohibitions, restrictions and restraints incidental to the War, were doubtless soon removed, and there was also a gradual lowering of shipping freights caused by the release of tonnage and by new building. But the good that may have in the natural course followed from the above was more than nullified by inflamed nationalism, one of the principal political products of the War, finding its economic vent in the setting up of tariff barriers more numerous and higher than before and still more by a state of world-wide disordered currencies and confused exchanges. The last point needs a little more elucidation.

Anxious to secure to the utmost their respective national reserves, not only the belligerents but even most of the neutral states had during the War thrown off the gold standard by abolishing the individual citizen's right of free disposal of gold. The soil was thus prepared for a continuous policy of inflation which, beginning first among the combatants on account of the needs of war finance, gradually spread to neutrals, as they advanced extensive loans to the former beyond the limits of their own available savings. Since the link of gold which tied together the currencies of the civilized world was thus sundered, the door was thrown open for wide variations in the intrinsic values of the free paper currencies dependent on the degrees of inflation which they underwent. The divergencies in internal values naturally tended to reflect themselves through foreign exchange. Throughout the duration of the War, when it was essential to ensure the unimpeded supply of urgently needed commodities, the Allied Powers adopted with success artificial control to peg their own exchanges with the U.S. currency near about the pre-War parity. With the removal of the

artificial prop, the true situation came out in its ugly nakedness. An utter dislocation of the world's exchanges inevitably followed. Much worse in its effect than this dislocation of pre-War parities was the gyratic character, or more appropriately the convulsions, of exchanges, being the outcome of renewed inflationist policies almost all over the world. The extraordinary demands on post-War state finances on account of enormously swelled national debts, increased costs of social services, etc., just when the means to satisfy them could hardly be adequate, were largely at the root of this inflation, which in some cases was carried far beyond the maximum previously reached. The whole story of the post-War currency muddle, with its various episodes centring round the erratic behaviour of the franc and the lira and to a lesser extent of sterling, the collapse of the Russian, Austro-Hungarian, German and almost all Eastern and South-Eastern European currencies, forms a topic by itself to which space does not permit us here to make more than a passing reference.

Such in outline was the world economic situation during the years immediately after the termination of hostilities. It was discouraging in the extreme. Yet borne aloft on the gust of sheer optimism, quite natural after the end of a long and ruinous war, and fully aided in this speculative outburst by the low discount policies of the banks, world's production and trade went high up for a time. Simultaneously and in sympathy with this, Indian foreign trade boomed up, although the year opened in the country under the depressing effects of a serious monsoon failure over a wide area and of an influenza epidemic which swept away six million lives. The total trade in 1919-20 in spite of serious cable and railway congestion reached an unprecedented figure in value. The import of merchandise leapt from Rs. 1,69,03 lakhs in 1918-19 to Rs. 2,07,97 lakhs in 1919-20, while exports of Indian merchandise reached Rs. 3,12,28 lakhs against Rs. 2,39,32 in the previous year, and that notwithstanding the continuance of control over exportation of wheat and rice.

In the spring of 1920 the unhealthy character of the rise

in prices brought about by inflation, and the speculative nature of the flourishing trade and industrial activity which accompanied it, was recognized all the world over, and there was premonition in business circles of the impending crisis. The inevitable reaction soon came. Reacting first upon those countries which had the greatest interest in international trade, it quickly spread from one country to another. The depression was intensely accentuated by a senseless policy of deflation which, first started by the U.S. banking administration, partly as a check on speculation and partly to tread back to the pre-War prices, was at once followed by other countries, more or less imbued with the same sort of belief in the sacrosanctness of the pre-War price level and especially jealous of further depreciation of their own currencies in relation to the dollar. The usual consequences naturally followed—extensive and precipitate realization of stocks, abandonment or at least postponement of new ventures and of extensions and improvements of old ones, unemployment, and reluctance of dealers and consumers alike to buy in a falling market. Thus, writing in the early part of 1922 Cassel observed," The mad policy of militarism that has been pursued ever since the Armistice in November, 1918, and is the cause of true peace not having even yet been attained, is in itself quite sufficient to destroy the world's economic life and to bring ruin and unemployment upon all the nations of the world. Since both these mistakes have operated in conjunction with one another, the result has been a catastrophe for which none of the contributing parties are being immediately called to account, and in which each one is able more or less successfully to point to other predominant factors as being the cause of the general chaos."

If the external conditions were so complicated by depression worse depressed, the internal conditions were no less so. The slump as an inevitable reaction from the boom was not slow to come in India as in the rest of the world. Here, however, the complicating factor arising from deflation took a slightly different and in a way a more unfortunate course, and its effect, at least in the sphere of foreign trade, was equally if not more detrimental. The Indian authorities

made persistent but vain attempts to stabilize the rupee exchange at an unwarrantably high ratio. While this necessarily involved a continuous policy of deflation with all its pernicious effects, it was soon found impossible to deflate our currency as fast as the fall in world prices. Eventually the exchange had to be left to take its own course in a storm-tossed ocean. Since we shall discuss this point fully in a later chapter, we need not expatiate here on its mischievous effects on our foreign trade. We must, however, add here that over and above all these there arose during this period labour troubles and, worse still, difficulties of railway transport as the direct consequence of the heavy war depreciation, unaccompanied as it was by any adequate replacement, of the rolling-stock and the permanent way. The combined effects of labour unrest and of congestion and confusion of railway traffic, which rendered it extremely difficult to carry coal from the fields to the industrial areas, was to affect our industrial activity and thus indirectly our volume of foreign exports and imports. Besides, the weak monsoon of 1920 and its lingering effects necessitated the retention in one form or another of control over the exportation of food grains till 1921-2, which restricted trade in some of the very important items of our exportable merchandise. On the other hand the continued disparity between import prices and export prices seriously affected the purchasing power of the people and thus prevented the revival of the import trade.

THE COURSE OF TRADE

We can read the adverse factors, outlined above, in the dwindling figures of imports and exports in 1920-1, 1921-2 and 1922-3, as shown below.

TABLE.

(Figures in lakhs of rupees.)

	Import (private). Merchandise only.	Total import including treasure and Govt. transactions.	Export (private). Indian merchandise only.	Total export including treasure and Govt. transactions.	Grand total.
1919-20 ...	2,07,97	2,99,94	3,12,28	3,49,70	6,49,64
1920-1 ...	3,35,60	3,82,34	2,40,01	2,93,94	6,76,28
1921-2 ...	2,66,35	3,13,90	2,31,38	2,67,72	5,81,62
1922-3 ...	2,32,71	3,09,77	2,99,16	3,19,09	6,28,86

It will, however, be observed that the export trade was to feel the effects of the depression and also to recover from it earlier than the import trade. "This was only to be expected. Trade returns of imports are invariably out of date as a record of business transactions, for even in normal years they indicate values on arrival in fulfilment of orders placed three, six or even (in the case of machinery) twelve months earlier, as contrasted with the departure values recorded in the export returns, which reflect more quickly serious fluctuations of trade."

Thus, after the sudden swing forward in 1919-20, our trade again began to decline in value but still the average, whether of imports or of exports, stood noticeably above that of any other year preceding 1919-20. This, however, need not deceive us as to the real truth. On a restatement of the values of imports and exports calculated on the basis of 1913-14 prices, we observe that they stand as follows:

	1913-4	1919-20	1920-1.	1921-2.	1922-3.
Imp (merchandise)	183	101	142	124	138
Exp (merchandise, exclu re-export)	244	108	172	182	214
Total merchandise exclu re-export . .	427	209	314	306	352

In other words, trade in 1922-3 was yet to recover the position which it lost since the outbreak of the War. Subjected to this crucial test even the phenomenal progress of the boom year will appear to be largely unreal.

II

1923-4 TO 1929-30
(Period of Recovery)

Thus the years which immediately followed the War were still influenced by the aftermath of the great struggle. Inter-

national exchange of commodities was retarded by every unfavourable circumstance, we could conceive. The depression which came quickly at the heel of the fictitious prosperity of 1919-20 still further intensified the gravity of the situation. However, conditions began slowly to improve in India as in the rest of the world. The post-War position of equilibrium was slowly but surely being reached. It was at about 1923-4 that the pendulum began distinctly to swing forward. At long last Indian trade stood, after years of setback and stagnation, on the threshold of a period of fairly steady recovery.

FAVOURABLE FACTORS OF TRADE REVIVAL

What were the factors which dissipated the untoward influences of past years and favoured a gradual revival of India's external trade?

(1) *Return of Europe's economic and political conditions to normalcy.*

It cannot be overemphasized how largely and indissolubly the prospects of Indian trade development were bound up with the speedy establishment of a sound and healthy economic life in Europe. Let us not forget that during the pre-War quinquennium Europe took on an average 57 per cent. of our exportable surplus and supplied in turn 78 per cent. of our total takings from overseas. The reconstruction on a thoroughly sound basis of the entire mechanism of her production and exchange was, therefore, essential before Europe could be expected to maintain at the old level the supply of her imports to the Indian market. On the other hand, the capacity of India to absorb increasing quantities of foreign goods depended not merely on their cheapness but equally or even more on the prospects of her own exportable commodities in foreign markets, which, in turn, largely hinged on the rehabilitation of the economic conditions in Europe. Thus, for a proper and intelligent study of the course of our international trade during the post-War period, it is especially necessary to understand how the

complications of the European situation were gradually settling themselves down to a normal basis.

In the beginning of 1922, Keynes wrote, " In spite, therefore, of trade depression and disordered exchanges, Europe, under the surface, is much stabler and much healthier than two years ago. The disturbance of minds is less. The organization, destroyed by war, has been partly restored; transport, except in Eastern Europe, is largely repaired; there has been a good harvest, everywhere but in Russia, and raw materials are abundant. Great Britain and the U.S.A., and their markets overseas have suffered a cyclical fluctuation of trade prosperity of a greater amplitude than ever before; but there are indications that the worst point is passed."[1] For some time, however, the problem of reparations tended to vitiate the whole economic and political atmosphere of Europe. It must be yet fresh in our memory how Germany's total reparation indebtedness was fixed in the form of an ultimatum by the London Conference of May, 1921, and how the subsequent history was " one long series of defaults, ultimatums, occupations of additional German territory, culminating in 1923 in the occupation of the Ruhr, the headlong inflation of the German currency and the political and economic collapse of Germany towards the end of the year."

In 1924 the Dawes plan cut the Gordian knot of this vexed problem, transferring it from the political to the purely economic sphere. The acceptance of the report not only assisted the reorganization of Central Europe on a stable economic footing but inaugurated a new epoch of confidence and development all over the world. During the five years of its operation the plan worked quite smoothly[2]

[1] *Revision of the Treaty*, pp 169-70

[2] Germany did not, however, pay the reparation obligations out of her own resources but persistently borrowed from other countries not only for the sake of reparation payments but also to supplement her capital requirements at home. A good deal of the vast load of foreign debt which she thus piled up was in the form of short term obligations, which were normally renewed on maturity but were called in at the first shock to confidence consequent on the failure of the Austrian Credit-Anstalt in the summer of 1931. It was then that the Hoover Moratorium came to Germany's rescue when she thus stood in imminent danger of collapse. Evidently the German, and for the matter of that Europe's, security and prosperity, since

till it was superseded by the adoption in 1930 of the Young Scheme, conceived as a final settlement of Germany's reparation obligations.[1] Simultaneously, the intricate problem of the gradual systematization of inter-Ally debts was successfully tackled. The uncertainty which gathered around them was put an end to by the early settlement in 1923 of the question of Anglo-American debts and by similar other arrangements which were, by and by, arrived at as between other Allies.[2] Thus we observe that from about 1923 or 1924 there was achieved a steady progress in the solution of the knotty issues of European politics which, ever since the termination of the War, were "entangling the footsteps of trade and embarrassing business." Finally, the ratification of the treaties agreed to at the Locarno

the Dawes Plan came into operation, were based on a precarious foundation. Nevertheless, there is scarcely any room for doubt that "this skilful scheme," to quote Sir Arthur Salter, "gave Europe a valuable respite of five years in which she could forget about reparation and proceed with reconstruction. And during this great quinquennium . . . she stabilized her finances, increased her production and trade, overtook the progress of the rest of the world. . . ."

[1] By 1928 was clearly realized the grave danger which lurked behind the appearance of German prosperity, built up, as we saw, on an insecure basis. The Young Plan was, therefore, formulated with a view to "making reparation safe, by making it lighter and, if possible, by the issue of a huge reparation loan in the world's markets, to convert the Governmental into a commercial debt." It did away, however, with the salutary clauses of the Dawes scheme providing for the adjustment of gold obligations in accordance with changes in the value of gold lest such provisions might impair the success of the mobilization loan which, we should however add, did not after all materialize. As it unfortunately, therefore, happened, the primary object of the Young Plan was altogether defeated with the commencement of a period of falling prices. Reparation obligations actually proved more onerous under the Young than under the Dawes Plan, and payments had before long to be suspended. A "finally settled" plan was thus quickly unsettled by an adverse turn of circumstances so that the problem of reparation, and of war debts which are closely interwoven with it, remain yet to be tackled in a satisfactory manner and form at present the subject of negotiations and discussions among the respective Governments concerned.

[2] The settlements took the form of two series of funding arrangements by the U.S.A. and the U.K. with their respective Allied debtors. In respect of the sums due to America, funding agreement was reached with Finland and Great Britain during 1923, with Hungary, Lithuania and Poland during 1924, with Belgium, Latvia, Czechoslovakia, Esthonia, Italy and Rumania during 1925, with France and Yugoslavia during 1926, with Austria in 1928, and, finally, with Greece in 1929. Great Britain reached funding agreement with Rumania and Belgium in course of the year 1925, with Italy, France and Portugal during 1926 and with Greece and Yugoslavia during 1927.

Conference of October, 1925, definitely closed the chapter of mutual distrust, suspicion and ill will, among European powers and turned a new leaf in the history of peace and reconstruction in Europe.

(2) *Stabilization of world's currencies and exchanges.*

Simultaneously, order was gradually evolved out of the chaos into which the world's monetary affairs had fallen, " continued inflation on one side and excessive deflation on the other having deprived the world of every sense of equilibrium in the purchasing power of money and in international exchange." " By the end of 1922," as we previously mentioned, " most of the currencies of Europe were well away on the glissade toward utter demoralization and those of Austria, Hungary, Russia and Germany were completely out of control." As long ago as September, 1920, the League of Nations had convened the Brussels Financial Conference to discuss and throw light on the problem of stabilizing the European currencies. The Genoa Conference, assembled in April, 1922, reaffirmed the principles enunciated at the Brussels Conference and elaborated them still further in detail. They served to focus the attention of the world on the true causes of the exchange muddle, but unfortunately were not attended with immediate practical results. Nevertheless, conditions steadily improved. By the middle of 1921 the aimless policy of deflation which, as we described in the previous section, was fraught with grave consequences for the world's industry and commerce, came to a stop. Since that date the value of gold remained remarkably stable, oscillating, according to the U.S. Bureau of Labour statistics, only slightly from 147 in 1921 to 149 in 1922, 154 in 1923 and 150 in 1924, the year 1913 being equivalent to 100. It was observed in the *Federal Reserve Bulletin* of September, 1923, " During the past year there has been a pronounced tendency for prices in the U.S.A. and foreign countries and foreign exchange rates to work towards a closer adjustment, with the consequence that prices, when expressed in terms of gold or dollar, are more nearly on a common level than at any time since the War."

Since 1924 it was possible to record a distinct improvement in exchange conditions. Early in that year Sweden returned to the gold standard. Through the active intervention of the League of Nations, a considerable degree of success was achieved in the restoration of Austrian and Hungarian currencies to fairly steady foundations. The acceptance of the Dawes plan paved the path for the stabilization of the mark and the gradual regularization of war debts removed a potent disturbing influence on exchanges. In fact, by 1925 most European currencies were stabilized in relation to gold. The situation as it then prevailed in 1925 is best described in the words of another writer. "In one group England, Sweden, Holland and Switzerland have been able to return to their pre-War standards. In another group Austria, Hungary and Germany have established gold currencies with new parities, having been assisted to this goal by international loans raised under plans formulated by the League of Nations for Austria and Hungary and by the Dawes Committee for Germany. In a third group which includes Finland, Lithuania, Esthonia, Czechoslovakia and Poland, stability at new parities has been attained without external credit assistance. The fourth group includes those countries which so far have found it impossible to break away from paper currencies unrelated to gold and the currencies of some of these countries are still in a precarious condition. On the other hand there are a few whose currencies are not so far removed from pre-War par gold values as to make the return to those values impossible."

The subsequent years saw a continuation of the process of stabilization. By 1928 Belgium, Italy and France, the three important countries with which India had extensive commercial relations, succeeded, one after the other, in emerging from the difficulties through which they were still struggling, and reached parity with gold. They were shortly followed by many other smaller nationalities who achieved the same object with more or less equal success. This gradual attainment of stable exchange conditions in one European country after another was naturally attended with direct, beneficial consequences for India's foreign commerce. Its

indirect effect, however, was no less important. For the progressive stabilization of the world's exchange conditions had a preponderating effect in reviving the economic confidence of the whole world, and thus redounded indirectly to the lasting benefit of Indian commerce.

If we now turn to India, we similarly witness during the period under present review a steady approach towards the achievement of conditions calculated to foster the development of trade.

(3) *Favourable monsoons.*

The lingering effects of the disastrous season of 1920, discernible as late as 1921-2 in the records of our export trade, quickly disappeared with the timely arrival and the propitious disposition of the monsoon in 1922. It was a rare and an exceptionally favourable coincidence that the favourable monsoon of 1922 was followed in unbroken succession by more or less equally satisfactory seasonal conditions in subsequent years. The first break in the chain occurred in 1928-9, when the rainfall was somewhat below the normal, yet "on the whole the condition of most of the crops was fair to good except in the case of wheat," which, it may be added, more than recovered from the adverse effect in the following year.

(4) *Adjustment of import and export prices.*

In the second place, the gulf that separated the export price level from the price level of imports tended during the period to become narrower and narrower. This can be seen from the following indices of imports and exports, the year 1913-4, when approximate equilibrium may be presumed to have existed, being accepted as the base.

	1913 –4	1920 –1	1921 –2	1922 –3	1923 –4	1924 –5	1925 –6	1926 –7	1927 –8	1928 –9	1929 –30
Imp.	100	237	214	169	190	180	158	148	136	133	128
Exp.	100	140	127	140	145	154	152	132	130	127	118

It will be seen that the inequality between import and export prices, which first assumed disquieting proportions towards the middle of the War,[1] did not appreciably mitigate itself up to 1921-2. In that last-named year we had to purchase our imports at prices 114 per cent. higher than we paid in 1913-4, while we obtained for our exports no more than 27 per cent. over and above the 1913-4 scale of prices, that is to say, there still existed a discrepancy of 87 points between them. It was in 1922-3 that export and import prices approached for the first time within measurable distance of each other. Although in the following year there was witnessed a partial setback, yet improvement was quite rapid thereafter. In 1925-6 the adjustment seemed nearly complete; but unfortunately there was a contrary movement in 1926-7. However, the ground that was thus lost was immediately recovered, and the disparity once more dwindled to a narrow margin. It is a disquieting sign that in 1929-30 the gap has again widened, but compared with previous years it must be admitted to be yet quite small.

(5) *Stability of the rupee exchange.*

In the third place is to be noted, as an auxiliary factor of commercial recovery, the steadiness of the course of the rupee exchange, which, at the end of a long period of tormentful uncertainty, was at last in evidence from October, 1924. In part it was a mere reflex of the comparatively stable condition of world prices which had come to prevail; but quite obviously attainment of economic stability within the country itself was an indispensable pre-requisite for it.

In 1923-4 there was brought to an end the long and critical period of India's financial difficulties, characterized ever since the year 1918-9 by an uninterrupted succession of budgetary deficits. The intrinsic soundness and prosperity of Indian finances which thenceforth remained unimpaired stopped the continuous increase of customs duties, which for some time past had been going on year after year and to a certain extent bearing on trade expansion. If it thus directly benefited commerce, indirectly it contributed to and in truth actually rendered possible the successful pursuit of a steady

[1] *Supra*, p. 94.

monetary policy, as the consequence of which stability in exchange was capable of attainment. The rupee exchange, showing a steady recovery from the low point to which it had dipped early in 1921, had gradually reached 1s. 6d. sterling by October, 1924, equivalent at the time to 1s. 4d. gold. Since then the exchange, by means of successful manipulation on the part of the Government, was not allowed to deviate in any appreciable manner from that point, but meanwhile with the recovery of the gold parity of the sterling the rupee exchange at 18d. sterling became synonymous with 18d. gold. In the beginning of 1927, following upon the recommendation of the Royal Commission on Currency, the exchange value of the rupee at 18d. gold received definite statutory recognition and there devolved upon the Currency Authority definite statutory responsibility for the maintenance of the link between the rupee and gold at the prescribed ratio. The stabilization of the rupee at 18d. gold in preference to the pre-War ratio of 16d. was a subject on which the fiercest polemics were exchanged. In so far as the controversy had any direct bearing on the question of Indian trade development, we shall discuss it in our chapter on Currency and Trade. Here we need simply point out that, on this as on all previous occasions of cognate investigations, we failed to trace any direct influence of currency on the course of our trade development. Certainly there was not a tittle of evidence to support the gratuitous assumption that the acceptance of the 18d. ratio would at once let loose forces fraught with the most disastrous consequences for our industry and trade. On the contrary, it seems indisputable that the elimination of the last vestige of uncertainty, which was the inevitable outcome of the legal sanction of a *de facto* ratio, was not altogether a negligible factor in the promotion of India's foreign commerce.

DISCRIMINATING PROTECTION NOT A DETERRENT FACTOR

It is, however, worthy of note here that the beginning of the period at present under review, was signalized by the acceptance in India of the principle of protection directed

towards fostering the development of her industries. A number of manufactures has since received protection against foreign competition, either in the form of grant of bounties or more often by means of tariffs. Protection, as every economist knows, tends to diminish, or at all events checks, the growth of international exchange of commodities. "By as much as it hinders imports, by so much it must, in the long run, interfere with the development of an export trade."[1] It is indeed particularly instructive that the theory in this respect seems to be closely confirmed by actual experience. The comparative analysis of the trade of every country of the world, as is now yearly carried out under the auspices of the League of Nations, reveals the interesting fact that it is the countries with low tariffs which are generally on the top, while protectionist countries are not only at the bottom but have been gradually sinking in the list of trade per head of population. This does not, however, mean that "protection to a nascent industry in a country where capitalistic resources are scarce" is "necessarily unreasonable." Anyway, it seems for the present unnecessary to pursue this aspect of the question. Protection in India has not yet been adopted on a scale or with a vigour to produce any perceptible harmful influence. Every step in this direction has been taken with great caution. Where it has eventually been decided to shelter an industry during a temporary period, utmost discrimination has been exercised as to the degree of protection afforded. There is consequently no reason to suppose that the recovery of the Indian trade from the consequences of the War and its aftermath was in the least debauched by the adoption of protection for a few of our industries. It will no doubt prove quite an interesting study to gauge the actual consequences of this cautious application of the protective principle, to examine, for instance, how far, or if at all, protection has, in each particular case concerned, brought about a more decided limitation of foreign competition and altered the proportion of home and foreign supply. To undertake this investigation here will be travelling out of the proper sphere of our discussion.

[1] Marshall, *Money, Credit and Commerce*, p. 218.

A COMPENDIUM OF THE COURSE OF TRADE

The following is a compendium of the general course of trade during the period under review.

TABLE

(In lakhs of rupees).

Year.	Imports (merchandise only). (1)	Imports (Total including treasure and govt. transactions) (2)	Exports (Indian produce only). (3)	Exports (Total including treasure and govt. transactions). (4)	Grand Total. (2) plus (4)
1923-4 ...	2,27,61	2,90,38	3,48,84	3,67,05	6,57,43
1924-5 ...	2,46,63	3,52,57	3,84,66	4,05,41	7,57,98
1925-6 ...	2,26,18	2,91,49	3,74,84	3,90,66	6,82,15
1926-7 ...	2,31,22	2,82,35	3,01,44	3,13,26	5,95,61
1927-8 ...	2,49,84	2,96,43	3,19,15	3,33,40	6,29,83
1928-9 ...	2,53,31	3,00,69	3,30,13	3,45,50	6,46,19
1929-30 ...	2,40,80	2,77,54	3,10,80	3,24,13	6,01,67

The figures of imports and exports of merchandise, as shown in the above table, are recalculated below on the basis of the declared values in 1913-4 in order to afford an approximate, but on the whole a fairly reliable, view of the actual measure of their expansion, as compared with the pre-War period.

TABLE [1]

(In crores of rupees)

	1913 -4	1923 -4	1924 -5	1925 -6	1926 -7	1927 -8	1928 -9	1929 -30
Imports...	183	120	137	143	156	181	190	189
Exports...	244	240	250	246	228	248	260	263
Total Trade in Merchandise excluding Re-exports ...	427	360	387	389	384	429	450	452

We also annex herewith a diagrammatic representation of the course of the import and export trade in merchandise with the view of facilitating our study. The illustrative curves almost explain themselves.

[1] From *Review of the Trade of India in* 1929-30, p. 8.

THE COURSE OF TRADE ANALYZED

Let us first examine the above figures and then look at the appended diagram. Nothing more than a brief glance is

Graph No. 4.—TRADE IN MERCHANDISE, 1923-4 TO 1929-30.

required in order to realize that the swollen figures of value during the period in consideration are entirely deceptive as to the true proportions of the growth of trade. It is readily apparent from the appended graph how both in regard to exports and to imports the volume curve (if we may designate by that name the curve which represents the

recalculated values) stands on a far lower plane than the value curve (that is, the one which traces the course of actual recorded values). On the other hand it is equally palpable that the entire period exhibits a marked tendency towards steady recovery and is on the whole characterized by continuity of progress. This may be more easily comprehended from our diagram, where all the curves show a general upward slope, the volume and the value curves, so far as the broad general trend is concerned, exhibiting no marked divergence from each other. It is, however, very striking to note that the oscillations with occasional sharp depressions, which disturb the evenness of the value curves, are either altogether absent in the corresponding volume curves or appear there only in attenuated forms. This, of course, means that the actual recovery and expansion of trade has been even more steady and regular than might appear from a mere superficial analysis of the trade returns.

Let us now enter a little more into details. If we first take the import trade, we observe that the revival in this case was extremely slow and gradual. It was not, indeed, until 1928-29 that the volume of imports regained its pre-War level. It was nothing to be wondered at in view of the lag of adjustment which throughout continued between import and export prices. On the other hand, it was a distinctly encouraging feature that as the discrepancy tended gradually to rectify itself, the import trade simultaneously climbed slowly but steadily up the path of ascent.[1] It is

[1] It is a first principle of the science of international trade that "exports pay for imports." No exercise of intelligence is, therefore, necessary to understand the simple fact why lower prices of exports relatively to imports will *pro tanto* inhibit our purchase of import commodities. At first the opinion prevailed among many that, on account of the attraction which gold offered to the people for its cheapness in terms of rupees, the resources of the nation were being diverted to gold in preference to purchase of other imported goods. Ostensibly the large importation of gold during 1924-5 was the proximate fact which gave rise to this opinion and for a time seemed to lend some weight of testimony to it. It was doubtless too hasty a generalization to make in the light of a single year's trade statistics. The abnormal import of gold during 1924-5 was largely the outcome of speculation which was engendered by the general belief that the price of gold had touched the bottom and might now tend to go higher. The possibility of the rupee being fixed at 1s. 4d. instead of 1s. 6d. may have been another cause for the speculation (see Hilton-Young Commission, Kitchin, Q.13500). The net annual absorption of gold including both coin and bullion amounted

particularly to be noticed how steady and unbroken was the progress of the import trade. The setback which the trade seemed to have suffered in 1925-6 and 1926-7 was only apparent. For, whatever fluctuations may have occurred in its value, it is clear that the record of the import trade, so far as the actual weight was concerned, was one of unbroken progress from year to year. It was not until 1929-30, when the whole world was suffering from a general wave of depression, that this continuity of progress was for the first time intercepted.

If we now turn to the export trade, we observe that it was much earlier to revive than the import trade. In 1923-4 it closely approximated to its pre-War dimension. In the following year it not only surpassed that mark but actually ascended the peak of prosperity from which it only slightly receded in 1925-6. It was but natural that a remarkable buoyancy should characterize the trade during the above two years, for not only were harvests plenteous but simultaneously the upward trend of the prices of Indian exports, which for various world causes had begun to manifest itself since

to Rs. 24,11 lakhs annually during the five years after the termination of the War and to an average of Rs. 30,85 lakhs between 1924-5 and 1929-30, against the corresponding figure of Rs. 27,04 lakhs during the pre-War quinquennium. Some minor adjustments may be necessary in order to make the comparison strictly accurate. We must, for instance, allow for the fact that in pre-War years gold circulated to some limited extent, while since the end of the War it has altogether ceased to function as currency. It is also necessary to bear in mind that before the War gold was valued at Rs. 15 to the sovereign, while in the post-bellum period it was computed at lower values. However, even when one makes all such necessary allowances, one cannot say from the above figures that the offtake of gold since the War has been in any way excessive On the contrary, when one remembers that India was starved of gold during the War and her population has since considerably increased, one cannot but conclude that the average yearly additions to the total stock of consumption have considerably fallen off in comparison with the pre-War normal standard. Thus the view about the diversion of India's purchasing power from consumable commodities to gold, though it at first obtained some currency and credence, was soon disproved by the maturer verdict of time.

It is not again true, as some writers seem to assume, that there was accumulating within the country a reserve of purchasing power, which was merely withholding itself on a falling market. The fact that the recovery of the import trade has been so gradual and prolonged and has only proceeded *pari passu* with the adjustment of import and export prices is a sufficient proof that people were not merely making shift in the expectation of buying at more favourable prices, but they were actually fettered in their power to renew purchases.

1921, reached its apex. With the incipience of a reverse tendency for world prices of agricultural staples since 1924, the value of Indian exports immediately fell off. Although in after years it showed a tendency to recover, still it remained far behind the level reached during the prosperous years of 1924-5 and 1925-6. The actual volume of trade, however, was quite steady in advance, and although its progress was seriously interrupted and reversed in 1926-7, it was not long before it rose again to a point higher than it had ever previously attained.

III

A COMPARATIVE VIEW

The general survey for the post-War period may now be fittingly closed by presenting a view of the Indian trade development through a wider perspective, that is, in its relation to the trade of the world at large. Compiled from the Memorandum on International Trade and Balances of Payments, annually published by the League of Nations, we give on pages 131–2 a table, showing the quantum indices of imports and exports, as compared with the pre-War year.

It will be found on a careful scrutiny of the foregoing table that with few exceptions the trade of every country during the years immediately succeeding the War was below the 1913 level; but, leaving aside for all purposes of comparison the quite exceptional case of Russia and that of war-worn and specially embarrassed Germany, the trade of few countries showed as heavy a decline as India's. So far as the import trade went, Argentina and Switzerland were the only countries in the list to suffer equally with us. On the export side, none but the last named shared to the same extent as India the downward fluctuation of the trade. Similarly, in respect of the subsequent recovery it is readily apparent that the revival of the Indian trade, both in regard to imports and to exports, was more slow and less marked than the trade of almost every other country. It is to be

QUANTUM INDICES OF IMPORTS AND EXPORTS (1913 = 100).

		1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
Denmark	Imp.	90	88	91	113	129	130	122	123	138	144	147
	Exp.	35	76	90	100	131	134	132	141	167	174	170
France	Imp.	121	114	82	108	109	115	106	111	109	116	133
	Exp.	45	86	83	86	103	119	124	134	146	148	147
Germany	Imp.		37	53	59	45	63	84	73	106	103	99
	Exp.		37	44	61	53	51	65	73	76	86	95
Italy[1]	Imp.	100	96	96	82	93	102	117	116	113	132	131
	Exp.	68	88	79	79	90	119	136	125	130	132	146
Norway	Imp.	159	142	88	103	109	106	107	106	117	125	136
	Exp.	68	90	66	94	98	107	112	118	121	124	142
Russia[2] (present territory, all frontiers)	Imp.	8[3]	4[3]	21	27	15	23	41	46	49	66	57
	Exp.	0[7]	0[3]	2	5	10	28	29	37	44	46	55
Switzerland	Imp.	70	83	66	71	81	87	87	89	91	98	101
	Exp.	94	89	61	70	75	88	91	88	99	102	101
China	Imp.	78	81	96	113	108	108	107	129	107	122	120[4]
	Exp.	138	117	119	122	133	—	127	137	133	143	133[4]
Dutch E. Indies	Imp.	58[5]	87[5]	129	90	77	85	105	117	122	140	147[6]
	Exp.	181	155	136	132	138	148	184	172	188	188	175[6]
India	Imp.	55	78	68	75	66	75	78	85	100	104	
	Exp.	81	71	75	88	98	102	101	93	101	106	

QUANTUM INDICES OF IMPORTS AND EXPORTS (1913 = 100)—*continued.*

		1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929
Japan	Imp.	—	142	160	146	162	178	—	—	—	—	—
	Exp.	—	113	134	110	140	176	—	—	—	—	—
New Zealand	Imp.	71	119	93	90	126	143	156	156	147	150	164
	Exp.	142	120	125	158	141	142	139	140	152	157	162
Argentina	Imp.	55	72	67	74	91	90	101	105	112	127	137
	Exp.	101	98	91	112	117	144	112	132	167	—	—
Canada (years beginning April 1st)	Imp.	79[5]	99	82	96	101	95	112	133	149	179	—
	Exp.	123[5]	128	117	163	190	183	212	208	209	256	—
U.S.A.	Imp.	125	138	120	154	160	156	166	178	180	181	206
	Exp.	142	137	119	112	115	129	137	145	157	164	168

[1] The Italian figures are calculated on dissimilar price indices, one from 1919 to 1925 except 1922, a second for the last-named year and a third for years after 1926.

[2] Year from 1922 onward ending September 30th.

[3] European frontiers only.

[4] Special trade, corresponding figures for 1928 are: Imports 121, exports 141.

[5] Calculated on a different price index.

[6] Excluding " Government."

noticed how far more quickly than the Indian, the Argentine import trade emerged from the low level, where both of them had during the first years after the War equally sunk. By 1927 even the German recovery, so far as the import trade was concerned, had come up to our level.

On account of the alteration in the relative prices between primary and secondary products, to which we already alluded, manufactured goods now represent a larger share of the quantum of goods entering into international trade. It may not, therefore, be difficult to understand why countries with a highly developed level of production should register a more satisfactory rate of progress than India. The same, of course, cannot be said of the rest of the countries which are preponderantly agricultural as India. It may, however, be conceded that in respect of countries like Argentina, where relatively to the population the natural resources are far more abundant and where the people, generally speaking, are more resourceful and enterprising, a rate of development faster than that of India is nothing unexpected. But when we see that our record compares unfavourably even with that of China, notwithstanding the frequent political revulsions from which the latter country has suffered, it certainly sets us thinking.

For further reference and confirmation we extract a series of two tables (*see* pages 134–5), which will repay careful study. The sources from which they have been collected are the same as in the case of the first table and they similarly represent, but from different standpoints, a comparative study of the external trade of the different countries of the world in 1913 and in recent years. The descriptive titles at the head of each table will sufficiently explain the contents.

The first of the tables shows that in the export trade our share of the total trade of the world has perceptibly fallen off in comparison with 1913 and in the import trade we are hardly maintaining the pre-War position. It is some consolation to see that India is not the only sufferer in this respect but is in the company of a number of other countries, who are no better off. At the same time, however, let us

PERCENTAGE DISTRIBUTION OF THE WORLD'S TRADE.

(Basis: Recorded values, reduced to dollars.)

	Import.							Export.						
	1913	1924	1925	1926	1927	1928	1929	1913	1924	1925	1926	1927	1928	1929
U.S.A.	8·3	12·5	13·2	13·5	12·4	11·6	12·0	13·8	16·7	16·9	16·7	16·2	16·1	15·7
U.K.	19·0	18·6	18·6	18·6	17·5	16·9	16·5	15·0	13·9	13·1	11·9	12·1	11·6	11·2
Germany[1]	11·7	7·3	7·5	6·9	9·0	9·0	8·2	13·6	6·9	6·8	8·6	8·3	9·3	9·7
France[1]	7·2	5·6	5·1	5·0	4·9	5·4	5·7	6·3	5·4	5·1	5·0	5·4	5·5	5·2
Canada	3·2	3·2	3·0	3·4	3·7	3·9	4·1	1·8	3·3	3·3	3·5	3·4	3·5	3·2
India	3·0	2·9	2·8	3·0	3·0	2·9	2·9	4·5	4·1	4·7	4·1	3·7	3·9	3·8
Japan	1·9	3·6	3·3	3·3	2·9	3·0	2·7	1·6	2·8	2·9	3·0	2·8	2·7	2·8
Italy	3·0	3·2	3·3	2·8	2·7	3·0	3·0	2·2	2·6	2·7	2·4	2·4	2·3	2·3
Netherlands	4·2	3·7	3·6	3·6	3·7	3·9	3·8	2·5	2·8	3·0	2·9	2·9	2·9	2·8
China	1·5	1·8	1·8	2·1	1·5	1·9	1·8	1·4	1·7	1·7	1·7	1·7	1·7	1·7
Argentina	2·2	1·9	2·1	2·0	2·1	2·4	2·4	3·2	3·4	3·0	3·1	3·7	3·8	3·6
Australia	1·7	2·0	2·1	2·3	2·1	1·9	1·9	2·0	2·0	2·3	2·1	2·0	2·0	2·2
Belgium	4·3	3·5	3·3	3·2	3·4	3·5	3·6	2·8	2·5	2·4	3·0	3·1	3·1	2·9

N.B.—The figures are based on nearly, if not completely, the whole of the world's trade.

[1] The figures (*a*) from Germany are too high and (*b*) for France are too low, because (*a*) the import figures from Germany in the case of many European and South American countries are, owing to the statistical treatment of direct and indirect transit trade, considerably above the corresponding figures in the German export statistics and (*b*) the import figures of French Asiatic and African colonies (except Algeria) are not included, and the Belgian and the United Kingdom import figures from France are, owing to the statistical treatment of direct and indirect transit trade, considerably below the corresponding figures in the French export statistics.

FOREIGN TRADE PER HEAD OF POPULATION.

(In U S dollars.) (Special trade, merchandise only.)

	1913.	1924.	1927.	1929
New Zealand	177·86	318·64	304·89	334·08
Australia	154·97	216·41	237·19	213·41
Canada	141·84	201·47	247·17	241·82
Switzerland	161·49	208·69	216·90	226·46
U K.	125·83	189·98	192·79	195·66
Argentine	122·68	148·78	168·79	156·24
Sweden	79·10	118·12	140·90	157·38
France	74·18	107·38	101·39	101·45
Union of South Africa ...	75·50	82·54	93·03	95·89
Germany	73·86	59·21	91·81	97·48
U.S A.	43·11	70·93	73·66	77·44
Italy	33·39	37·06	45·53	45·84
Egypt	23·96	36·95	32·43	35·47
Spain	22·46	41·85	39·27	42·32
Japan	12·29	29·13	30·90	31·15
Brazil	26·12	23·10	21·58	22·58
Persia	11·23	14·78	20·05	25·46[1]
Dutch East Indies ...	11·20	16·98	19·38	19·58
Rumania	31·88	15·89	24·41	19·71
Siam	9·10	12·68	20·16	17·32
Russia	8·51	3·51	5·20	5·77
China	1·61	3·25	2·01	3·15
India	4·31	6·05	6·24	6·27

not forget to note that, in this list as in the previous one China exhibits a superior rate of progress than India. The second table does not give any different version of the story. If we bear in mind the considerable depreciation of the dollar since pre-War days, we shall at once realize that the per head trade of India has not grown at all, but on the contrary has suffered a little decline. Here again, with few exceptions, every country, including China, outshines India in its record of progress.

If we now read the above three tables in conjunction, and read them with all reservation that a comparative study of this kind demands, the impression cannot perhaps be avoided that a certain degree of remissness has, since the end of the War, characterized the course of our trade, not positively but relatively to most trading nations of the world. This is especially in contrast with our pre-War record when, as will perhaps be remembered, we were in the van of progress.

[1] The figure is for latest available previous year.

In one of the earlier issues of the League of Nations Memoranda, it was suggested that one factor tending to check the expansion of India's overseas trade was to be found in the larger utilization of raw materials for manufacture at home. If it were true, there would of course have been no cause for dissatisfaction ; on the contrary, it would have been regarded as a most desirable change. But having regard to the fact that with hardly any exception the Indian industries have all these years been passing through a period of acute depression, the opinion expressed in the said Memorandum cannot at all be seriously entertained. On the whole, and in the absence of further knowledge, it would be safe to conclude, though we must not dogmatize on the point, that the relaxation in the rate of expansion of our foreign trade, which we have noted above, indicates some weakening of our relative economic position.

Conclusion

Here we bring to a conclusion our general survey of the development of India's foreign trade from the day when it evinced its first notable signs of expansion. The end of our review is clouded by the contemplation that we are now in the throes of an economic blizzard. The zenith of the post-War period of recovery and progress was reached and passed during the course of the year 1929. The depression that has since set in is one of the severest to which the world has ever been exposed. The figures of India's foreign trade in the year 1929-30 give some indication of the fact that she is bearing her share of a universal slump in trade. When, however, we refer to the price indices of imports and exports, which have again shown a disquieting tendency towards increased divergence, we come to realize that India with the rest of the agricultural countries has been especially hard hit by the present slump. Unfortunately, the microbe of depression is still at work, and it does not seem that the world has yet got it under control.

It falls beyond the scope of the present work to attempt a diagnosis of the existing economic malady, and, in fact, there is a conspicuous absence of agreement as regards its cause

among world's expert opinions. Whether, as Cassel affirms, it has been chiefly brought about by a restrictive credit policy coupled with a growing scarcity of gold, as an underlying factor,[1] or whether, on the other hand, it is a major fluctuation of the cyclical movement of trade, we need not here discuss. One thing, however, is certain. The future of Indian trade recovery largely depends on the establishment of something more nearly approaching the former equilibrium between agricultural prices on the one hand and manufacturing prices on the other. For then only can trade bring prosperity to our cultivators and stimulate in turn the demand for imported goods. Obviously, the world equilibrium between agricultural and manufacturing prices cannot be restored merely by provision of liberal bank credits, to which the monetary school pins its faith as the sure remedy for ending the present lull in the business world. Professor Sprague in his recent paper, read before the Royal Statistical Society on June 16th, has emphasized this point quite pertinently and he seems to us perfectly right.

There is, however, another point to be considered. What, if on account of changes in relative demand and supply, this disparity and apparent disequilibrium shows a tendency to crystallize itself into a more or less normal position of the future ?[2] Such a prospect cannot be contemplated without grave concern. No one who appreciates conditions in India, where a pre-eminently agricultural population lives its life at a low level of material comfort, can fail to realize the tragic significance which attaches from the viewpoint of economics of India to any permanent shift in the equation of exchange in the direction just indicated. In the past, notable as the improvement in agricultural efficiency has been in many parts of India, the benefits therefrom have,

[1] See his address delivered to the Institute of Bankers on May 27th, 1931.

[2] It is indeed feared by many that with the gradual progress of material civilization the relative demand between primary and secondary products will increasingly shift in favour of the latter type of goods. For, after the stage has been reached when the prime necessaries of his life have been satisfied, a man spends an increasingly large proportion of his growing income on services and highly worked up forms of raw material rather than on food or on commodities requiring a proportionate increase of basic products.

however, to a large extent been nullified by a rapid increase in population. There is no indication yet that the checks, whether voluntary or artificial, to the rate of growth of population are in the ascendant while, compared with this alarmingly rapid multiplication of numbers, whatever progress there is in the adoption of new and better methods of agricultural production, it is sure to be distressingly slow. There cannot, therefore, be any doubt that in the slow but inevitable process of readjustment which will be called for in the event of a more or less permanent under-valuation of agricultural in relation to manufactured commodities, our teeming millions will inevitably suffer a further deterioration even in the present deplorably low standard of their living.

Here we should, however, venture to point out that so far as the laborious investigations of economists and statisticians throw any light on the question, it seems that the dislocation of the prices of agricultural in relation to those of manufactured products is a phenomenon of temporary maladjustment rather than an expression of a durable underlying change. "During the War both industry and agriculture were spurred to the maximum production by the Governments of nearly all the countries of the world, and, in addition, both had the natural (or unnatural) incentive of constantly rising prices. In a world of destruction, production was a monopoly. With the return to more settled monetary conditions, industry was able to adjust its production comparatively rapidly to lower demand and lower prices owing to its very short period of production and the high rate of turnover, the heavy industries excepted. Agriculture with its long term period of production lacked this mobility, and, like the heavy industries, only more so, suffered from lack of adaptability by undergoing a protracted period of severe depression."[1] Besides, it is noteworthy that the tendency has been for the world prices of primary and secondary products to come nearer to each other during the years preceding the present depression and this furnishes a strong presumptive proof of the contention which we have upheld in the

dia

is a [1] *International Review of Agriculture*, Year XX, Part II, Jan., 1929, pp.

beginning of the paragraph. True, the yawning tendency has again shown itself during the present economic crisis. But this has been so probably because the more highly organized manufacturing industries have found it within their means to resist with partial success the downward movement of prices while less organized agricultural industries have almost wholly succumbed to it. Secondly, " In consequence of the social structure, *i.e.*, of the relatively small number of capitalist employers of labour and the large mass of workers not possessing capital, the diminution of purchasing power in industry has a much more serious effect on the marketing capacity of agricultural products than the agricultural crisis has on the shrinkage of the markets for manufactured goods. The reason for this lies in the fact that the fall in the purchasing power of agriculture, due to fall in income, is experienced over a relatively long period only by a fraction of the suppliers, while the majority of the farmers can maintain by means of their own capital a level of absorption of external commodities higher than would correspond to the exchange value of the products of their own production."[1] It is, therefore, to be hoped that sooner or later raw materials will rise from the " mire " and manufactured goods will come down from the " stilts " and eventually the present anomalous conditions will be brought to an end.

We need not, therefore, conclude our review with an unduly pessimistic tone. True, the future is obscure, and of an early return of better times there is no indication to date. But why should we forget that depressions never come to stay? Let us hope that as always happened in the past, so on the present occasion the effect of the reaction will only be to galvanize the world's dormant powers of production and exchange into fresh and still more vigorous activity. In the very universality of the present breakdown lies probably the hope of eventual and certain recovery.

[1] *International Review of Agriculture*, Year XX, Part II, August, 1929.

PART III

Currency and Trade

CHAPTER VI

Currency Changes and Trade Development 1873-1893

I

INTRODUCTORY

Our summary of the diverse contributory forces, which at different periods shaped the course of India's foreign trade, will remain incomplete without a careful examination of the part which, either for good or for evil, currency changes played in this development. Such changes, whether brought about by uncontrollable economic forces or merely by administrative or legislative decision, were by no means few and far between. They furnished occasions for the appointment, during the six decades covered by the period of our study, of no less than six Committees or Commissions—quite a unique thing in the monetary history of any country. In the last analysis, however, the series of successive disturbances converged on a single nodal point—the rupture of the link between the rupee and gold, which by its periodic reappearance seemed to prove the riddle of the Sphinx. On every occasion it was this break-off in the relation between the local and the international currency which first inaugurated years of uncertainty and adjustment, and was then followed in turn by a tentative period of governmental efforts, sometimes successful and sometimes not, to restore the link at some new ratio and stabilize it at that point. This, in fact, is the pith and core of the whole history of

currency changes during the entire period under consideration.

It must not be supposed that the task which we now propose to undertake is likely to prove either simple or brief. For, in the first place, we have to bear in mind that although the underlying problem was on every occasion essentially the same, it did not, however, repeat itself in an exactly identical manner or under quite identical conditions. Past experiences possessed, therefore, no more than a qualified significance for subsequent events, so that a fresh and intensive scrutiny of facts will be called for almost at every stage of our analysis. In the second place, the need of a careful and dispassionate examination of the fierce and apparently endless currency and exchange controversies, waged at frequent intervals during the period, is calculated to render our discussion long and toilsome. Nothing, perhaps, strikes a student of Indian trade history more than the fact that a large section of influential opinion has persistently attributed to the influence of exchange an extraordinary degree of potency for shaping the course of trade. Such an exaggerated view on the point has from the mere fact of its reiteration obtained a large credence among a wide circle of the business public, and even though it cannot claim to have possessed any considerable share in the conscious direction of business policy at any time, there exists, however, no scope for doubt that, whenever it gained currency, it did not fail to exercise a deep psychological influence on enterprise. It is, therefore, inexpedient that we should allow to go uncontradicted a good deal of misconception that has grown up around this subject. On the other hand, it is equally desirable that out of the wholesale repudiation of the above doctrine by a school of opinion belonging to the opposite extreme, we must salvage any residuum of truth which it may contain.

The need for such guidance was never so urgent as now. A perusal of the statement submitted by the Bombay Millowners' Association before the Tariff Board will at once bring home to us how preponderantly this single factor, namely, the influence of exchange, is held responsible for every misfortune

of the Bombay cotton industry, both past and present, and for every change which from time to time has occurred in the course of the Indian cotton trade. The opinion which was thus voiced forth on that occasion has since been persistently repeated in season and out of season. Indeed, at the present moment it has become almost a fashion with many to attribute every evil under the Indian sun to the much-maligned 18d. ratio. It is time that this loose talk must altogether cease. We are passing through a most critical period politically and economically. The wide circulation and acceptance of an opinion, so largely mistaken as above, can only seriously aggravate our difficulties at this juncture. In the political field it will without doubt swell the chorus of general discontent in the country. In the economic sphere it will deflect attention from the more important and probably the real causes of trouble from which most of our industries are suffering, will undoubtedly encourage a certain degree of passivity and militate against any endeavour towards conscious improvement. To combat this a mere dogmatic enunciation of a set doctrine, however well founded in theory, will not be enough. Whatever opinion we pronounce must be shown to clear demonstration in the dry light of actual facts. We must, however, here add that it is not our object, either, to ignore with cynical indifference, as some complacent theorists do, the transitional difficulties connected with the establishment of a higher exchange ratio, and this indeed is another important consideration which has actuated us to make a sifting enquiry into the point at issue.

We now propose to enter into our task which we have mapped out in the preceding paragraphs. Towards the close of our second chapter we only incidentally animadverted on the frequent currency troubles standing in sharp relief against an extraordinary consilience of other favourable circumstances during the period of our study. In order to avoid an interruption of the main thread of discourse, we did no more than lightly touch upon the issues involved in the subsequent chapters where we dissected the whole history of trade development. Here, in the following pages,

we deal with the entire subject with that fullness of treatment which, on account of its importance, it so richly deserves. The true scope of our discussion, however, should not be lost sight of. Currency by itself is a vast subject; of its many branching aspects, our interest here is strictly confined to only one, that is, in reference to its reaction upon foreign trade development. We must not, therefore, be construed to have pronounced at any stage a definite judgment on the currency policy as a whole, which evidently is possible only after a full consideration of all the other factors entering into the question.

II

FALL IN THE GOLD VALUE OF SILVER

From 1872–3 began a period of prolonged and fitful fall of the gold value of silver. During two centuries which had gone before, the ratio between gold and silver was remarkably steady;[1] so much so that people had come to possess almost a superstitious belief in its unchangeableness. The world's output of silver which was slowly increasing for more than a quarter of a century became greatly augmented after the 'sixties, "owing as much to fresh metallurgical methods as to the discovery of new lodes." On the other hand, the production of gold had begun to slacken at about the same time and, relative to the growing needs of commerce, it failed to hold its own.[2] But the great change in the status of silver was not primarily the outcome of a mere change in the relative supply of the precious metals, though it was undoubtedly a powerful accentuating circumstance. For, often in the past, silver had formed a very much larger proportion of the total production than it did since eighteen-seventies and yet the ratio was never seriously disturbed.[3]

[1] The Royal Commission on Gold and Silver, 1886, reported that from the middle of the seventeenth century till 1873 gold had never varied more than 3% on either side of a ratio of 15½ of silver to 1 of gold. *Vide Final Report of the Royal Commission on Gold and Silver*, C.5512, p. 2.

[2] The reader may refer to *Quarterly Journal of Economics*, Vol. XI, October, 1896, p. 31, for statistics relating to production of gold and silver during the period.

[3] *Vide Ambedkar, The Problem of the Rupee*, Table X, p. 78.

It was, in fact, the dethronement of silver from its once important monetary position in Europe and elsewhere that had the more decisive influence. Germany it was who first set the ball rolling when, after the termination of the Franco-Prussian War, she hit upon her opportune moment to go over to the gold standard. Country after country quickly followed suit, but the staggering blow was dealt when the Latin Union, too, decided, during 1873–4, to stop the free mintage of silver and at first to restrict, and eventually in 1878 altogether to stop, the further coinage of full-tender silver coins. "There were two important ways in which the change operated to make unsteady the gold value of silver. The first was by closing certain countries against its introduction as legal tender money, and thereby directing any increase of supply entirely upon those countries which remained on the silver standard; the second was in separating the value of existing silver coins, in gold standard countries, from the value of the bullion which they contained and thereby removing from the market for silver bullion the steadying influence of the great stock of silver in use as money."[1] In vain the silver interests in the U.S.A.[2] hoped to prop up its value. They succeeded, no doubt, in persuading their Government to meet them halfway and pass laws, first in 1878 and again in 1890, to buy substantially large quantities of silver for coinage into dollars, but they did not succeed in resisting its downward course, largely because gold itself was rapidly appreciating at the time. On the other hand, notwithstanding the heavy and continuous fall in the price, the output of silver from mines went on apace. Each year, as the price sank, it seemed as though the bottom was touched when unremunerativeness would react on the supply; but nothing of the kind happened. This great outburst, in the face of falling prices, was partly speculative. To some extent it was the logical sequence of every mine-owner's eagerness to make the best of a bad situation before it became still worse; and, after all, it

[1] Conant, *Principles of Money and Banking*, Vol. I, p. 339.

[2] The U.S.A., which, however, was then on paper basis, ruled out silver in 1873, when she reformed her coinage law with the view of providing metallic basis for her currency system.

was really not so strange as it might at first sight appear. For the decline of silver in terms of gold did not, as we shall have occasion to know, wholly represent a fall in terms of other commodities. Be that as it may, the average price of silver, which in 1872–3 was $60\frac{5}{16}$d. per oz., in the London market, went down almost from year to year till it reached $39\frac{1}{16}$d. in 1892–3.

FALL OF THE RUPEE-STERLING EXCHANGE

The rupee-sterling exchange or, what was the same thing, the exchange relationship of India with gold standard countries, naturally followed the market price of silver in terms of gold.[1] Except occasionally when there may have been a temporary and speculative rise, there was a continuous and persistent decline in the Indian exchange synchronous with the fall of silver. From an average height of 2s., round which exchange, save in very exceptional circumstances, was unfailingly firm for many years past, there was a precipitous descent down to 14·98d. Even so, it showed no sign of recovery but on the contrary hardly maintained itself.

EFFECTS OF THE DISORGANIZATION OF FOREIGN EXCHANGE

The disorganization of the foreign exchange market stimulated a lively discussion of its effects on trade and industry. Discussion soon developed into a heated controversy. On the one hand it was widely held—and it was as often disputed on the other—that the depreciating currency stimulated exports and thus encouraged national production. We shall presently examine this exchange stimulus theory and try to appraise its worth. Whatever room for difference of opinion there may have existed on the point, one thing, however, was certain. It was indisputable that the influence of capricious and violent fluctuations, which unfortunately too often marked the course of exchange during the period, was nothing but pernicious. To quote the language of Walker, " Without some tie which

[1] The close parallel movement of the two would be evident from a mere glance at Appendix (see Table IV), where in a tabular form are shown the average prices of silver in each year from 1870 down to 1892, and in an adjacent column the exchange rates for each corresponding year.

can hold the two metals at least near to each other, during the time between the manufacture and sale of commodities and the receipt of the proceeds, the producer in a gold country can never tell for how much silver he must sell his goods in order to make himself whole and perhaps win a profit; the producers in a silver country can never tell for how much gold they must sell their goods in order to make themselves whole or perhaps win a profit. The range of possible losses or possible gains from this source are such as to be altogether out of proportion to the range of ordinary chances of industrial and commercial enterprise."[1]

In the previous decade, when exchange had not yet lost its old moorings, the widest variations occurred in 1865–6 and 1866–7, during the very abnormal years of the American Civil War. The range of fluctuations, considered outrageous at the time, was between 2s. 0$\frac{5}{8}$d. at its highest and 1s. 10$\frac{3}{4}$d. at its lowest, that is, 7·6% in the first year and between 2s. 0$\frac{1}{8}$d. and 1s. 10$\frac{3}{4}$d., being 8·8% in the second.[2] But the ups and downs, which became only too common in the following years, were seldom less and sometimes even far outdid the variations of such abnormal years. The following table, showing the maximum and minimum of average monthly rates of exchange in each year, will furnish evidence in support of our statement.

MAXIMA AND MINIMA OF RATE OF EXCHANGE.[3]

Year.	Maximum.	Minimum.	Variation %.
1880	20$\frac{3}{8}$d.	19$\frac{3}{4}$d.	3·06
1881	20$\frac{1}{8}$d.	19$\frac{7}{16}$d	3·41
1882	20$\frac{5}{16}$d.	19$\frac{1}{16}$d	6·15
1883	19$\frac{23}{32}$d.	19$\frac{1}{8}$d.	3·01
1884	20d.	18$\frac{15}{16}$d	5·31
1885	19$\frac{21}{32}$d.	17$\frac{31}{32}$d	8·58
1886	18$\frac{3}{32}$d.	16$\frac{3}{16}$d.	10·53
1887	18$\frac{7}{32}$d.	16$\frac{21}{32}$d.	8·57
1888	17$\frac{1}{16}$d.	16$\frac{1}{32}$d.	6·04
1889	16$\frac{31}{32}$d.	16$\frac{1}{16}$d.	5·34
1890	20$\frac{15}{16}$d.	16$\frac{29}{32}$d.	19·25
1891	18$\frac{9}{16}$d.	16$\frac{5}{8}$d.	10·43
1892	16$\frac{21}{32}$d.	14$\frac{5}{8}$d.	12·19

[1] Walker, *International Bimetallism*, p. 139.

[2] Indian Currency Committee, 1893, *Minutes of Evidence*, C.7060–II, Q's 63–5.

[3] The figures of maxima and minima of average monthly rates of exchange have been taken from *Indian Currency Committee*, 1893, App. II, pp. 252–4, and figures of centesimal variation have been calculated therefrom.

It will be seen that there were few years in which the oscillations were not violent enough to throw even the most prudent traders entirely out of calculations. Their range showed a distinct inclination to become wider as years went on, and in one year, on account of speculation connected with the passing of the Sherman Act in the U.S.A., it ran as high as 19·25%.[1] Commerce thus became more or less a gamble and scared away many a man of substance and enterprise who would have otherwise found the means to develop it. Mr. Apcar, of Messrs. Apcar & Co., very graphically described the conditions of traders at the time when he said, "... instead of marching confidently forward with operations which are beneficial alike to India and to the countries with which we carry on trade, we either feel our way slowly and cautiously as men who walk in the dark, not knowing where the next step may land them, or we plunge recklessly forward as does a gambler, losing as often as we win, or oftener, and the fever of excitement is followed by a reaction resembling paralysis."

In recent controversies on Indian currency and exchange, a tendency is manifest on the part of many writers to minimize the injuries which fluctuations of exchange inflict on foreign trade. The Babington Smith Committee of 1919 voiced forth more or less a similar view. This school of opinion seems to place too much reliance on the practicability of an intelligent adaptation of methods of business to new circumstances. It is true that to some extent it might have been possible to cover the risks of trade during the period under consideration either by arranging for forward exchanges or by "hedging" through previous purchase

[1] To illustrate the risks to which they were subjected the native merchants of Karachi, in their memorial of 27th June, 1892, gave the following quotations of foreign exchange for the month which was current:

Date.	Exchange Rate.	Increase or Decrease Per Cent.
2nd June	1s. $3\frac{7}{16}$d.	
9th June	1s. $3\frac{21}{32}$d.	+ $4\frac{1}{2}$%
16th June	1s. $3\frac{11}{16}$d.	− $1\frac{3}{4}$%
23rd June	1s. $3\frac{7}{16}$d.	− $2\frac{3}{4}$%

and most pathetically added that they did not know what it would be on the morrow, whether for loss or for profit to them.

or sale of silver on the London market. It must, however, be remembered that such devices were not always to be depended upon, for not only did the banks sometimes absolutely refuse[1] to fix forward any rate, obviously in hours of greatest need, but, even when they did, such relief could not have always gone the full length to meet the situation.[2] At any rate, they meant additional troubles and expenses which cut into, and sometimes resulted in the total extinction of, margins of profits.[3] And in the last analysis the risks always remained (which no banking arrangements could possibly eliminate) that a merchant might be undersold by his competitors who may have subsequently obtained his supply at a more favourable rate of exchange. As Jevons aptly remarked, " The possibility of making contracts for future sale of bills or remittance is a second-rate protection of the merchant."[4] There cannot, therefore, be any doubt that such embarrassing circumstances, as we described above, must have exercised a most prejudicial influence on the normal healthy development of trade, though its effects may not be directly traceable on account of so many other favourable circumstances already at work. The opinion may further be hazarded, though it is always dangerous to express any opinion as to probable drift under hypothetical

[1] *Cf.*, " Under ordinary circumstances a merchant would be able to guard against a sudden liability of loss in exchange by fixing a rate with an exchange bank, but the banks are fully alive to the gravity of the situation, and absolutely refuse to fix forward any rate of exchange, being aware of the impossibility at the present crisis to cover their remittances." Letter from A. E. J. Abraham & Co., Calcutta, to the Secretary to the Board of Revenue, Lower Provinces, 11th January, 1893, *Ind. Cur. Com.*, 1893, App. I, p. 184.

Also *cf.*, " But on what principle can banks negotiate the finance of India's foreign trade, when exchange exerts such a dominating influence on all transactions to the extent that calculations of premiums and discounts rest on a quicksand of speculation? Such conditions defy principle." Extract from a speech by Mr. Reginald Murray, Agent, Chartered Mercantile Bank of India, London and China, *ibid.*, p. 193.

[2] *Ibid.*, C.7060, p. 12.

[3] *Cf.*, Q.—" Was not it possible by the aid of banks to fix your exchange at the same time that you fixed your trade operations? " (Lord Inchcape.) " Yes. I would not like to say so perhaps in this room, but the banks used to squeeze one a good deal." *Babington Smith Committee Report*, Vol. II, p. 256, Q. 7544.

[4] See *Royal Commission on Indian Currency and Finance*, 1926, Vol. II, p. 339.

circumstances, that were it not for the uncertainties of exchange, trade probably would have exhibited a steadier development, even if its actual volume would not have been greater.

III

EFFECTS OF CONTINUOUS FALL OF EXCHANGE—STATEMENT OF THE THEORY

When, however, we go over to consider the broad influence on trade of a chronic fall, as distinguished from a mere temporary swing of exchange, we begin to tread on more dubious grounds. The problem, in any case, does not admit of a very precise and determinate solution. The invariable presence of other concomitant causes renders it extremely difficult to isolate the effect of one such component factor from the conglomerate effect of all the forces. In our present case the absence of sufficient and reliable data makes it even still more difficult to give any decided view one way or the other. Nor are the testimonies of observant and well-informed thinkers on the subject or of business men directly concerned particularly helpful towards the formulation of the correct conclusion. In the first place, it is by itself no trivial task to separate the chaff from the corn in the midst of a bewildering variety of arguments, scattered over a wide mass of official papers and contemporary publications. Even when this tediously laborious task is accomplished, one does not know which side to take when "high and reverend authorities" are seen to "lift up their heads on both sides of the question."

It will be well to begin with a statement of the *a priori* theory of the effect of falling exchange on the external trade of a country. It is obvious enough that if, when everything else is equal, we assume a fall in the currency of one country in terms of another's, the exporter from the first country increases his receipts in local currency, even though he asks for no more than his former price in foreign money. It is, as Professor Marshall pointed out, an elementary application of the first rules of arithmetic and is true beyond question.

When, therefore, for any reason there occurs a persistent decline in exchange, such as actually happened in the case of India from 1873, it may be presumed that a situation which brings increasing sums for the exporters will naturally enable them to compete with more and more advantage in foreign markets and thus stimulate exports from that country. Yet the thing is not so simple as this. We cannot prognosticate anything till every underlying force behind the fall in exchange is clearly diagnosed. Suppose, in the particular instance under consideration, the change in the relative supply of precious metals had first reacted on the price-levels before it tended to manifest itself through exchanges or that the effect on both was simultaneous. On this assumption every fall of exchange was *ipso facto* a step towards the establishment of concord between the internal and external purchasing powers of the rupee, and so far from giving any special bounty to Indian exporters, served on the contrary to spare them a loss which, on account of the disparity between the exchange rate and the commodity prices, they would otherwise have suffered. The above is by no means an improbable hypothesis. In actual circumstances, however, it must be admitted, the exchange market is likely to prove more sensitive to a disturbance of the above kind than prices of commodities, and in such a case the exporter in the country with falling exchange may for a time enjoy a sort of bounty. For, when the exchange rate falls but the level of prices lags behind, the said exporter increases not merely his receipts of local currency but also his command over goods and services.

The question at once arises: can prices remain so inert in the actual course of events when there is a disturbance of the kind above described? In days of cheap and quick transport, of easy transmission of news and of organized markets and exchanges, it is almost axiomatic to say that the prices of internationally traded goods even at widely distant ports, expressed in terms of their respective currencies, "are never for any length of time much divergent from one another on the basis of the exchange rates actually obtaining in the market," subject, of course, to proper

allowance for tariff and transport costs. It is true of all goods entering into international trade, "though with an increasing time lag as we pass to articles which are not standardized or handled in organized markets." The very change in the currents of trade which, in the absence of this adjustment, is at once set in operation, quickly restores the parity. With reference to the disturbance which ensued about the beginning of the 'seventies, on account of the rupture in the established ratio between gold and silver, it is, therefore, only reasonable to assume that "Within the sphere of international trade, however, there was close interdependence. Imported and exported goods were directly and immediately affected. The gold price of an Indian commodity in Great Britain, the silver price in India, the rate of rupee exchange and the price of silver bullion—all were tied together. And so as regards the silver price of a British commodity in India."[1] Thus, if there were at any time a trifling premium on exports from India, caused by the momentary disharmony between wholesale prices at the ports and the prevailing exchange rate, it is doubtless that, like the iridescent bubble, it as quickly disappeared as it arose.

This does not, however, dispose of the whole question. A quick restoration of parity as between export and import prices and exchange is evidently not enough. If prices, all round, and the money incomes of the people, all move together in unison, then only will the mutually-adjusted relations in a previous state of equilibrium remain intact and no one will be better off or worse off than before but will merely use fewer or more counters. Even a theorist will, however, agree that prices in the interior, and more especially prices of domestic commodities, are rather sluggish of adjustment to any change and it is only too notorious that wages, etc., lag even farther behind. So long as this period of dispersion and maladjustment continues, every producer in the country of falling exchange, sending his wares abroad, is for the time being in a position of advantage. If, for instance, the falling exchange is an expression of the depreciation of

[1] Taussig, *International Trade*, p. 371.

his native currency, it means that while the lower exchange now brings him more money per unit of commodity, his outlay on wages and other items does not proportionately increase. Obviously, then, during a temporary period of transition, which, however, in the case of a custom-ridden country like India is likely to be of particularly long duration, he can without damage to himself undersell his competitors and extend his trade in foreign markets. If, on the other hand, the downward trend of the exchange is symptomatic, not of the depreciation of his own, but of the appreciation of the foreign currency, the temporary disability which the outside producer suffers on account of maladjustment between wages and prices, equally affords him the opportunity to push his merchandise at the expense of his embarrassed rivals. In both cases falling exchange will for some time stimulate exports, though eventually when adjustment is complete, the artificial stimulus will automatically come to an end. So far is quite admissible on grounds of simple deductive reasoning.

Let us now try to ascertain how far actual events confirmed, contradicted or modified such *a priori* probabilities. Before we proceed to this enquiry, we need, however, clear up a certain point here. If falling exchange stimulates exports, by parity of reasoning it must *pro tanto* prohibit imports. If it is contended that it is capable of encouraging both at the same time, it will *ex hypothesi* follow that a rising exchange possesses exactly the same powers. For, what constitute imports and exports of the one trading party are nothing but imports and exports of the other, while a fall in exchange from the standpoint of the former is only the other side of what represents a rising exchange from the point of view of the latter. Thus any line of argument which attributes to exchange the power of simultaneously influencing both imports and exports is at once seen to be self-contradictory. It is necessary to emphasize even this simple truth ; for during the long-winded disputation which began with the fall of gold price of silver, it was very often argued that falling exchange not merely encouraged exports but, by putting increased purchasing power into the pockets

of the people, indirectly stimulated imports as well. Apparently it seemed to have been forgotten that, if indeed there was available in the country an additional buying power, it must have increased the effective demand not merely for imports but for all goods and services. Thus, not only would imports be stimulated but simultaneously the internal price and wage-levels would also be forced up with the consequence that the native producer, enjoying a bonus on exports, would proportionately lose his share of the advantage. The above proposition, whichever way we may put it, is, therefore, clearly untenable.

STATISTICAL EVIDENCE

We now turn to statistical evidence which, we repeat, is far from conclusive. Still, so far as any conclusion is deducible from a scrutiny of trade returns, it hardly lends support to the view that the declining exchange, assuming it to have supplied the stimulus, had in practice any " prevailing " effect on the course of trade. Let us now pursue our enquiry. It is, in the first place, an undeniable fact that, generally speaking, the twenty years from 1872–3 exhibited on the whole a clear view of progress. If, however, a hasty observer rushes from this, as some actually did, to establish a nexus of causality between falling exchange and prosperity of trade, he merely builds a pyramid on a point. There are so many other factors to be taken into account. If, indeed, we make proper allowance for the enormous growth of population during the period and more especially the revolutionizing effects of the great element of progress we previously described, it may be as difficult to avoid the opposite conclusion.

Again, it was often advanced in support of the exchange stimulus theory that Indian exports to gold standard countries had, during the period, developed at a much faster rate than exports to silver standard countries. That the premise of this argument was incontestably true would appear at once from the following :

Year.		Annual average of expts. of merchandise to gold-using countries. Rx.	Percentage on figs. of 1875-6.	Annual average of expts. of merchandise to silver using countries. Rx.	Percentage on figs. of 1875-6.
1875-6 to 1879-80	...	38,916,093	100	23,540,811	100
1880-1 to 1884-5	...	56,402,318	145	25,811,637	110
1885-6 to 1889-90	...	63,176,863	162	29,443,736	125
1890-1 to 1891-2	...	70,214,031	180	33,871,835	144

But it is difficult to see how any such clear inference as to the effect of the falling exchange was deducible merely from the above data. The gold standard countries as a class represented the most progressive nations of the world and they were, as they even now are, the best customers of most of the important staples of our exports. On the other hand, the silver standard countries were not only economically backward, but the scope of trade with them was decidedly inferior, for their products generally belonged to the same category as ours. Falling exchange or no falling exchange, our trade with gold standard countries was therefore bound to grow at a faster rate in all circumstances. It may further be pointed out that it was not merely our exports to gold countries which expanded at a faster rate, but this was equally true of the imports which we received from them.[1] This will seem to furnish a strong presumptive proof against the inference that depreciating exchange had anything to do with increased exports to gold countries.

Just as we cannot make out a case for the exchange stimulus theory in the above manner, similarly we cannot refute it by a mere broad and superficial analysis of the trade returns. It was, for instance, very often urged in rebutment of the low exchange theory that it was not the trade of the silver-using countries, but on the contrary the trade of the gold-using countries, which scored greater progress during the period when silver was falling in terms of gold.[2]

[1] Figs. for imports from gold countries and silver countries have not been separately compiled. The imports for silver countries are so trifling in amount and unimportant in character that it is hardly worth while to take the trouble of compilation. The more rapid progress of imports from gold countries was so clear and decided that it needs no display of statistics to prove it.

[2] *Vide* Frederick Atkinson, *A Review of the Effect of Low Exchange on the Export Trade of India*, 1892, pp. 12-13.

In comparison with India, it was pointed out that every country on the gold standard, except the United Kingdom and France, had improved its trade at a faster rate than the first-named country.[1] Obviously enough such comparisons, which failed to take into account the special conditions of each particular country, afforded no reliable basis for a study of the exchange influence.

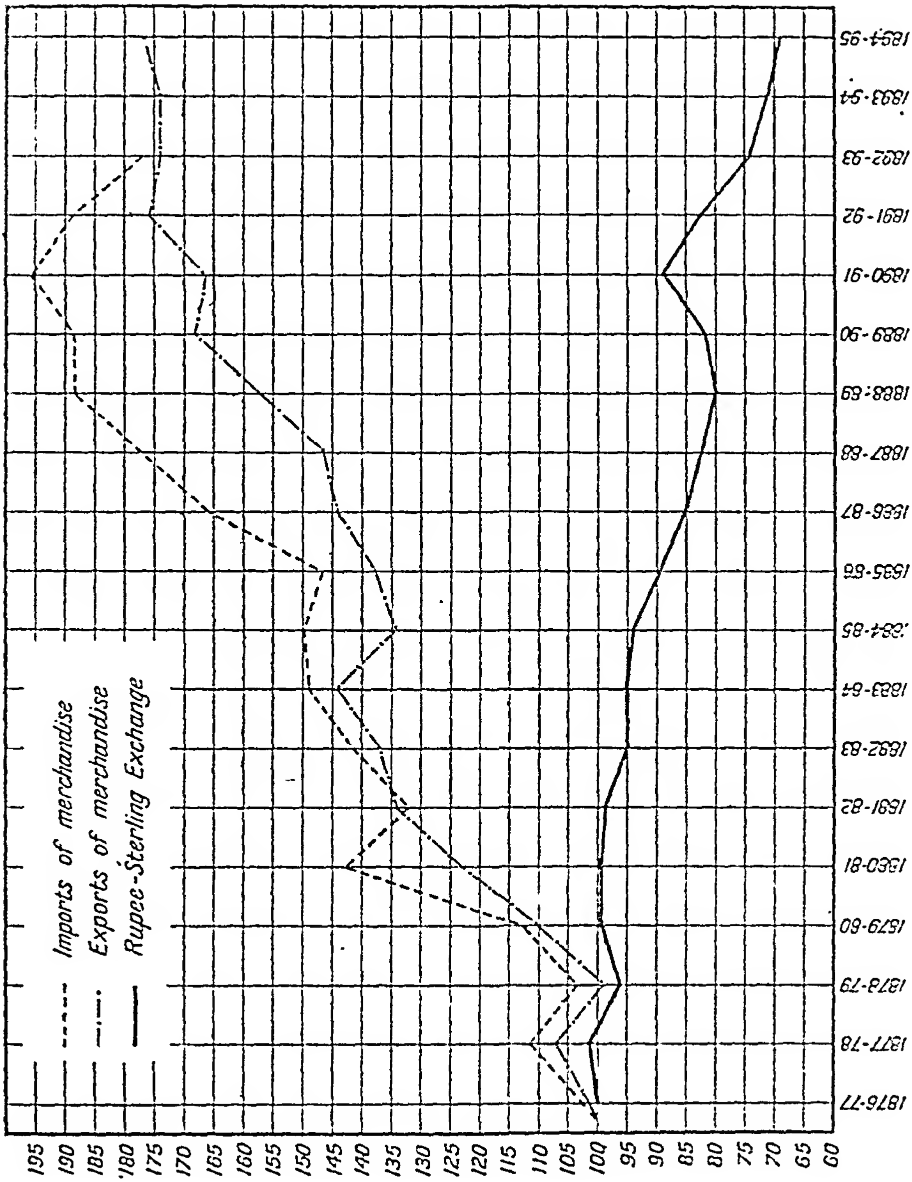
TABLE SHOWING VARIATIONS OF EXCHANGE AND OF IMPORTS AND EXPORTS FROM YEAR TO YEAR.

Year		Increase or decrease of Exchange	Increase or decrease of Exports of Indian Produce and Manufacture.	Increase or decrease of Imports of Merchandise.
1873-4	...	− 2·02	− ·57	+ 3·7
1874-5	...	− 0·58	+ 2·6	+ 9·5
1875-6	...	− 2·61	+ 3·1	+ 7·1
1876-7	...	− 5·31	+ 4·8	− 4·7
1877-8	...	+ 1·47	+ 7·1	+ 11·2
1878-9	...	− 4·95	− 7·0	− 7·0
1879-80	...	+ 1·21	+ 10·6	+ 8·7
1880-1	...	− 0·25	+ 10·8	+ 26·6
1881-2	...	− 0·3	+ 10·1	− 6·6
1882-3	...	− 1·86	+ 1·7	+ 6·4
1883-4	...	+ 0·1	+ 5·5	+ 5·4
1884-5	...	− 1·18	− 5·6	+ 0·8
1885-6	...	− 5·49	+ 0·5	− 2·5
1886-7	...	− 4·45	+ 5·2	+ 13·2
1887-8	...	− 3·10	1·7	+ 6·3
1888-9	...	− 3·07	[illegible] 7·2	+ 6·7
1889-90	...	+ 1·14	7·0	− ·01
1890-1	...	+ 9·19	− 3·2	+ 3·7
1891-2	...	− 7·49	+ 7·9	− 3·5
1892-3	...	− 10·4	− 1·5	− 5·9

Let us then pass from such vague generalities and enter into a minute examination of the trade returns. Let us first of all look at the changes in the aggregate value of exports and imports from year to year in order to see whether there was any foundation for the statement that falling exchange stimulated exports or, on the other hand, as would seem to follow by implication, it tended in any way to discourage the growth of imports. The table given here above displays in juxtaposition the annual variations of

[1] *Vide* Frederick Atkinson, *A Review of the Effect of Low Exchange on the Export Trade of India*, 1892, p. 13.

GRAPH NO. 5.


Imports of merchandise
Exports of merchandise
Rupee-Sterling Exchange
1876-77
1877-78
1878-79
1879-80
1880-81
1881-82
1882-83
1883-84
1884-85
1885-86
1886-87
1887-88
1888-89
1889-90
1890-91
1891-92
1892-93
1893-94
1894-95
195 190 185 180 175 170 165 160 155 150 145 140 135 130 125 120 115 110 105 100 95 90 85 80 75 70 65 60

exchange, and of imports and exports, which again have been illustrated on the adjoining diagram. Upon examination it will appear that there was no foundation in fact for the above contention. For not only exports but imports, too, expanded quite remarkably during the period and, if anything, it was the latter rather than the former which evinced a more satisfactory pace of progress. It is scarcely necessary to point out that every fall in exchange was not invariably accompanied by increased exports. In 1884–5 and 1885–6, for example, in spite of a heavy depreciation in the exchange rate and notwithstanding the fact that seasons were over and above good and harvests abundant, exports not only not increased but actually declined in the first year and remained almost stationary in the second. On the other hand, it is to be seen that, save in the very exceptional year 1890–1, exports throve remarkably well every time there was a rise in the exchange. It is particularly to be observed that the greatest and steadiest increase in exports was from 1879–80 to 1883–4, when indeed the exchange was not declining but on the contrary kept fairly steady. It is also worthy of note that, while for some years before the fall in exchange commenced, the imports had, in fact, been steadily diminishing, after the fall the downward trend was not only checked but was, in turn, succeeded by a very rapid growth of imports. Yet the contrary should have been the case if the dictum at all held good.

Let us apply another test, bearing more directly upon the point in dispute. Let us take into examination our trade with the United Kingdom, which was the gold standard country *par excellence*. There is inserted on the following page at the end of this paragraph a table showing in parallel columns the rate of exchange and the centesimal variations of imports from and exports to the United Kingdom in each year from 1874–5 to 1891–2. Upon examination it would appear that there was nothing in the course of that trade which in any way countenanced the theory. Exports and imports to and from that country followed their own developments regardless of the alleged effects of rising or falling exchange. Doubtless our export trade with it showed striking development during

the period but, notwithstanding what the apologists of a falling exchange may have said, it was nothing extraordinary. On the contrary, *vis-à-vis* the import trade, the growth of our exports would actually appear to be much less marked. Where, then, was the support for the low exchange stimulus theory ?

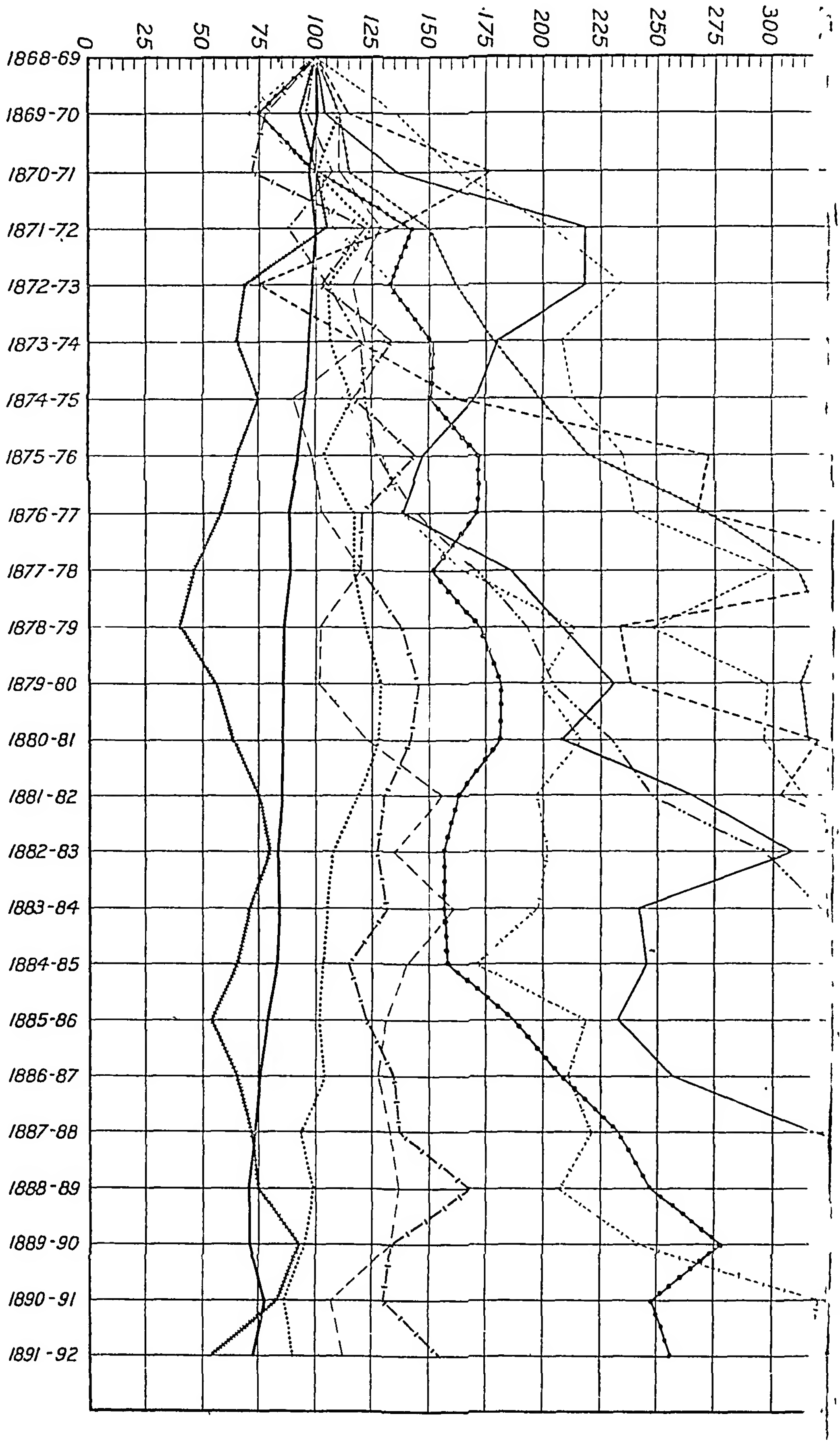
TABLE SHOWING THE PROGRESS OF THE TRADE OF INDIA WITH THE UNITED KINGDOM.[1]

Year.	Average Rate of Exchange.	Variations in Merchandise only.	
		Imports into India.	Exports from India.
	d.		
1874-5 ...	22·156	100	100
1875-6 ...	21·626	104	101
1876-7 ...	20·508	101	101
1877-8 ...	20·791	110	107
1878-9 ...	19·794	98	93
1879-80 ...	19·961	109	99
1880-1 ...	19·956	140	112
1881-2 ...	19·895	131	120
1882-3 ...	19·525	137	128
1883-4 ...	19·536	146	131
1884-5 ...	19·308	143	121
1885-6 ...	18·254	142	124
1886-7 ...	17·441	159	124
1887-8 ...	16·898	167	126
1888-9 ...	16·379	179	135
1889-90 ...	16·566	171	141
1890-1 ...	18·090	177	118
1891-2 ...	16·733	167	125

It is equally futile to search for any correlation between the course of exchange and the movements of particular imports or exports. Sometimes when exchange fell, many of the exports increased but some, on the other hand, decreased ; while the reverse was as frequently the case. Conversely with a rise in exchange there sometimes occurred, quite in apparent conformity to the theory, a decrease in most exports and an increase in most imports, but at other times it was just the opposite. In other words, the sequence from a particular fall or rise in exchange was never uniformly in one direction for all items, nor always the same for one

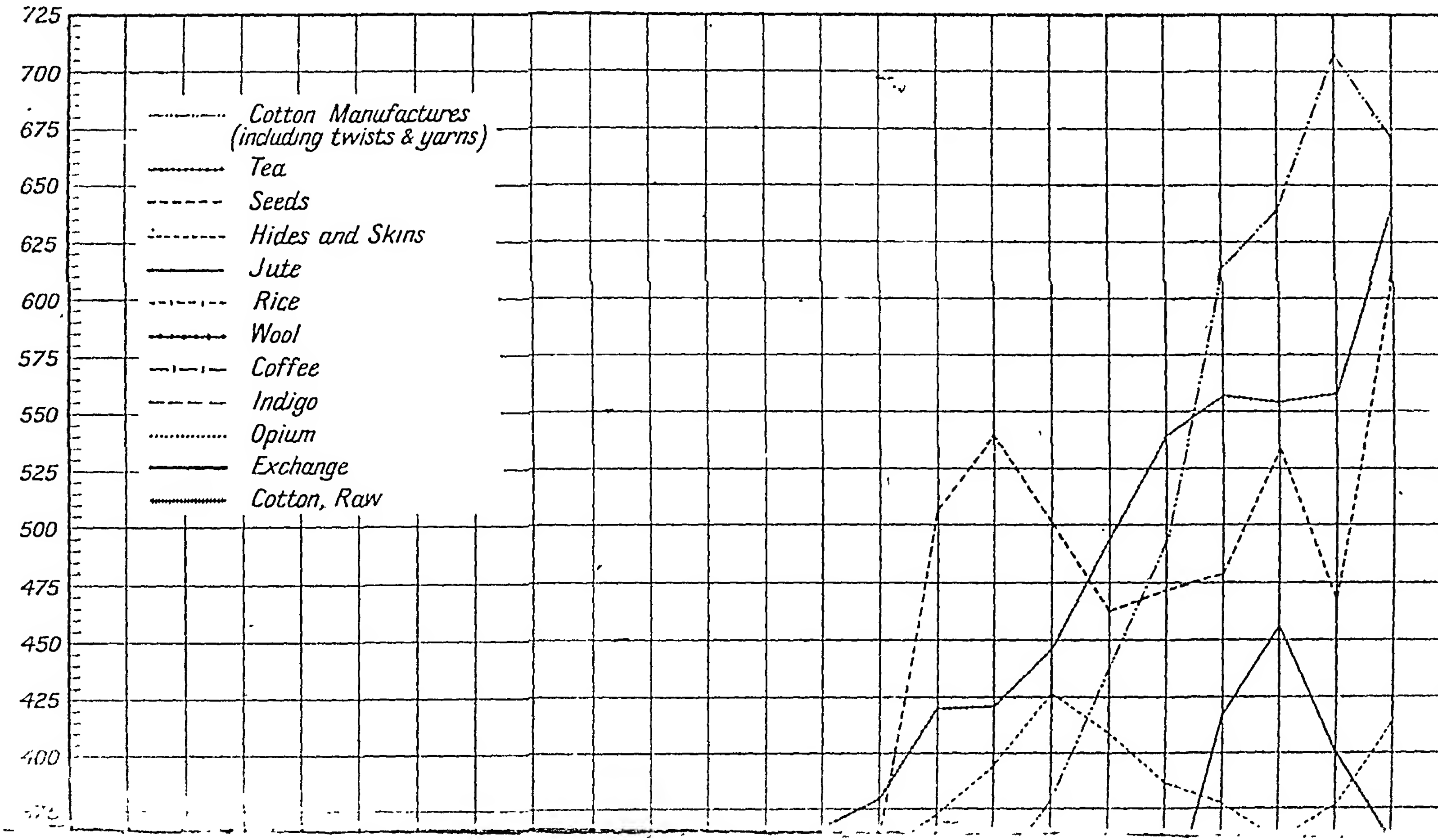
[1] Extracted from Appendix II of the Report of the Indian Currency Commission, 1893, C-7060-II.

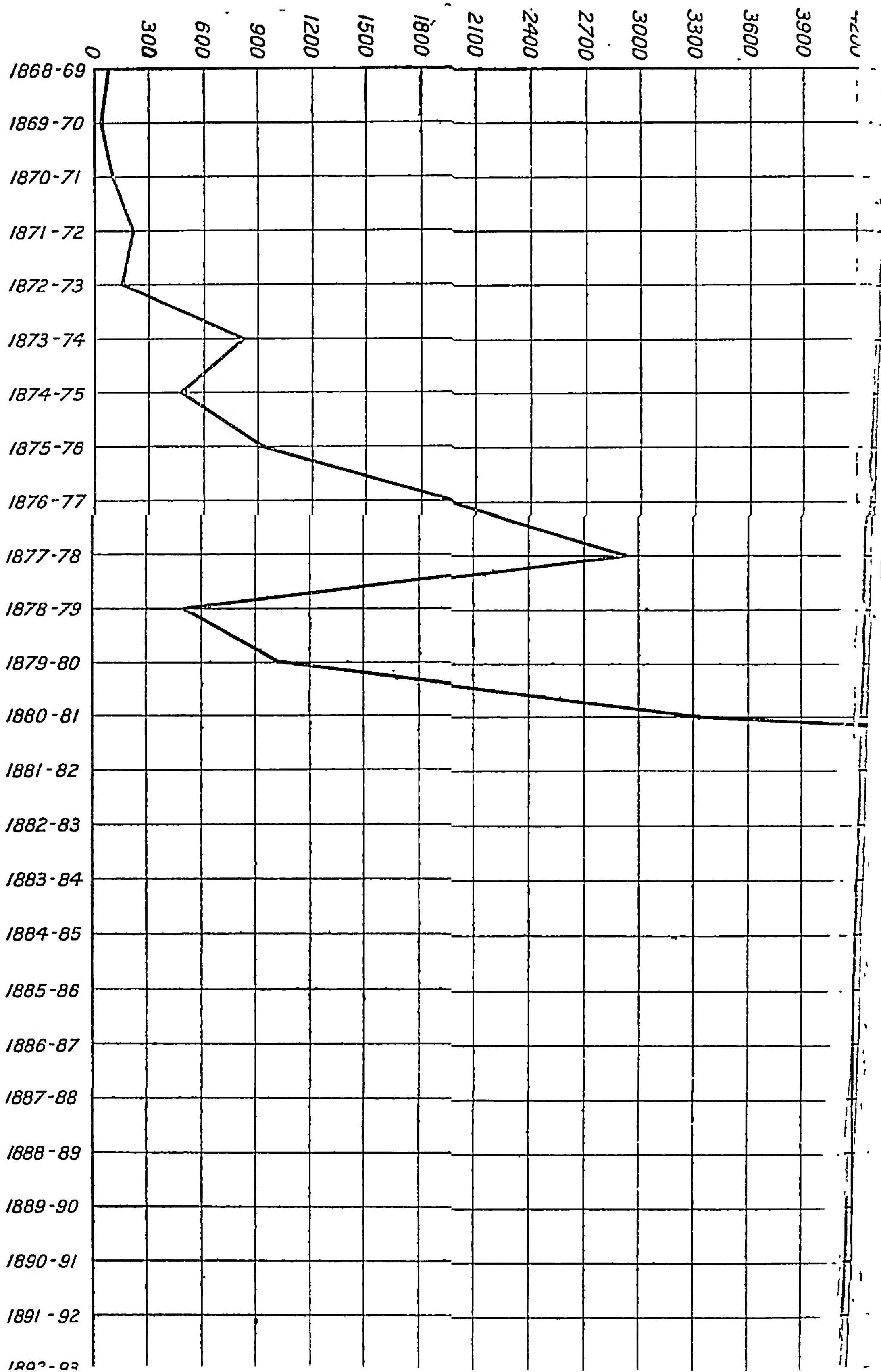
single item. Let us illustrate what we say in a more concrete manner. To this end there is adjoined a table (which, on account of its size, we have preferred to relegate to the Appendix, see Table V) showing in the first column the annual variations of exchange between 1868–9 and 1891–2 and in successive columns the movements over the same period of the principal items of our export trade. We, however, append here a diagrammatic representation of the whole, which at once shows the wide diversity in the movements of the individual articles of trade following their own course irrespective of the variations of exchange. If we now glance down the several columns of the afore-mentioned table, we discover no year on which we can put our finger to show even a fairly close correspondence between a drop in the exchange and a general stimulus to exports or, *per contra,* a rise in the exchange and a contraction in all or most exports. Take any year at random, say 1876–7, when exchange dropped heavily. Were all or even most exports stimulated on that account ? Restricting ourselves to chief exports to gold countries, for they alone were likely to be affected, we find that two of the most important staples, seeds and raw jute, shrank rather than expanded both in quantity as well as in value ; hides and skins and tea underwent no more than their usual development ; indigo increased in quantity but suffered diminution in value, while just the contrary was the case with wool ; cotton and coffee persisted in their downward trend ; wheat was the only article which shot up with a sudden big bound. Quite obviously the movements of the several items were so extremely divergent that it was impossible to find the least foundation for a theory seeking to establish some sort of a link between exchange and trade. Again, to illustrate the opposite case, we take the following year when the rate of exchange went up slightly. Did it produce any perceptible restrictive influence on the movements of our exports ? On the contrary, there was evidenced a notable development in all branches of the trade except in the comparatively unimportant item, wool, and in coffee and cotton which were steadily on the down grade for many years past.



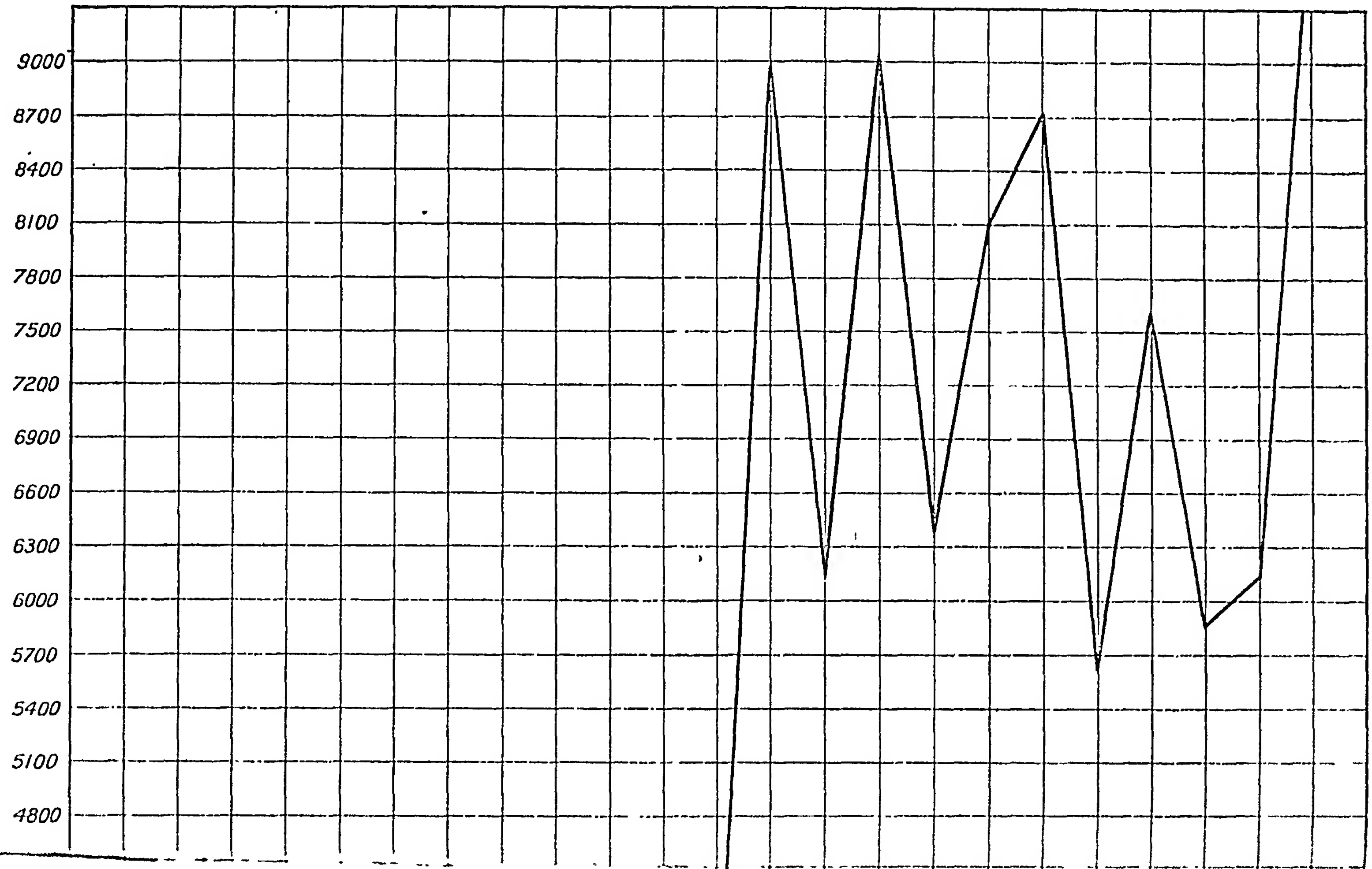
To face page 160.

GRAPH NO. 6.


725
700
675
650
625
600
575
550
525
500
475
450
425
400
Cotton Manufactures (including twists & yarns)
Tea
Seeds
Hides and Skins
Jute
Rice
Wool
Coffee
Indigo
Opium
Exchange
Cotton, Raw


0
300
600
900
1200
1500
1800
2100
2400
2700
3000
3300
3600
3900
1868-69
1869-70
1870-71
1871-72
1872-73
1873-74
1874-75
1875-76
1876-77
1877-78
1878-79
1879-80
1880-81
1881-82
1882-83
1883-84
1884-85
1885-86
1886-87
1887-88
1888-89
1889-90
1890-91
1891-92

Graph No. 7.—FLUCTUATION OF WHEAT EXPORTS (ON A DIFFERENT SCALE).



Next, when we turn from a horizontal to a vertical study of the table, that is to say, from an examination of the behaviour of all exports in a single year to a similar scrutiny of a single export in all years, we are confronted with a conclusion which does not at all differ from the above. Whether we take commodities like opium and cotton manufactures, which had their outlets almost exclusively in silver countries, or those like raw cotton, seeds, wheat, raw jute, tea, hides and skins, wool, etc., the bulk of which were usually exported to that part of the world which was on gold basis, or again a commodity like rice which used to be fairly equally divided between the two groups, the figures disclose no such difference in the course of their trade as can be construed even with some show of outward reason to have arisen from differences in monetary standards and consequently from conditions of exchange. For instance, the trade in raw cotton, exhibiting a marked downward tendency throughout the period, will seem to have hardly profited at all from the falling exchange. On the other hand, the opium trade, though without any so-called exchange stimulus, did at least register a more satisfactory progress, both in quantity as well as in value, even though it showed no signs of vitality. If, however, trades in seeds and raw jute underwent remarkable development during the period, the progress was even more pronounced in exports of cotton manufactures, which were entirely vended in silver standard countries. The record of the growth of rice exports compared only somewhat unfavourably with hides and skins trade and showed itself distinctly to its advantage in comparison with indigo and wool. The phenomenally striking development of wheat and tea might at first blush appear to have something to do with exchange; but, in fact, there was not the least foundation for any such belief. A minute examination of the various influences which actually shaped the course of wheat and tea exports will, however, take us too far afield. Be it enough to point out here that, in regard to the two above-mentioned commodities, as in regard to every other, there was no exact traceable connection from year to year between exchange and exports. In its temporary

oscillations wheat showed clear marks of the influence of the seasons rather than of the variations of the exchange rate, while its broad long period movement, evincing a remarkable degree of development, was clearly the outcome of more permanent causes, such as the gradual reduction of costs of transport to the seaboard and of handling charges at the ports, unprecedented depression in oceanic freights and extension of railway and irrigation mileages.[1] As to tea, it is clear that it pursued a path of steady, unbroken progress irrespective of the freaks of exchange. Besides, it must be borne in mind that Indian tea expanded its market largely at the expense of China tea which, however, should have equally profited from a falling exchange. The above considerations alone would be sufficient to throw doubts on, and even invalidate, the assumption of exchange phenomena as adequate and satisfactory explanations of the progress of the wheat and tea trades. To sum up and conclude our discussions on the point, the whole truth was that the fluctuations of the individual commodities so closely corresponded to effects from known causes, such as meteorological changes, provision of some new facilities, etc., or in the case of commodities like cotton, coffee, or indigo to other special circumstances of their own that one was left wondering if the impress of exchange was at all discernible on the course of trade of any of them.

It is needless for us to go into similar details about individual imports. The attached diagram will clearly bring out that in the case of the most important item, namely, cotton piece-goods, the course of its trade was in no ostensible manner affected by movements of exchange. We also give on page 164 in a tabular form the statistics of quantities as well as of values of the principal articles of merchandise imported. On reference to it, it would be abundantly clear that there was nowhere any trace of falling exchange standing in the way of broad general developments of imports from gold countries either absolutely or relative to an import, *e.g.*,

[1] *Vide* "The Indian Wheat Trade," by the present author, *Asiatic Review*, April, 1932, p. 302, for a clear and sufficient vindication of the assertion here above.

GRAPH No. 8

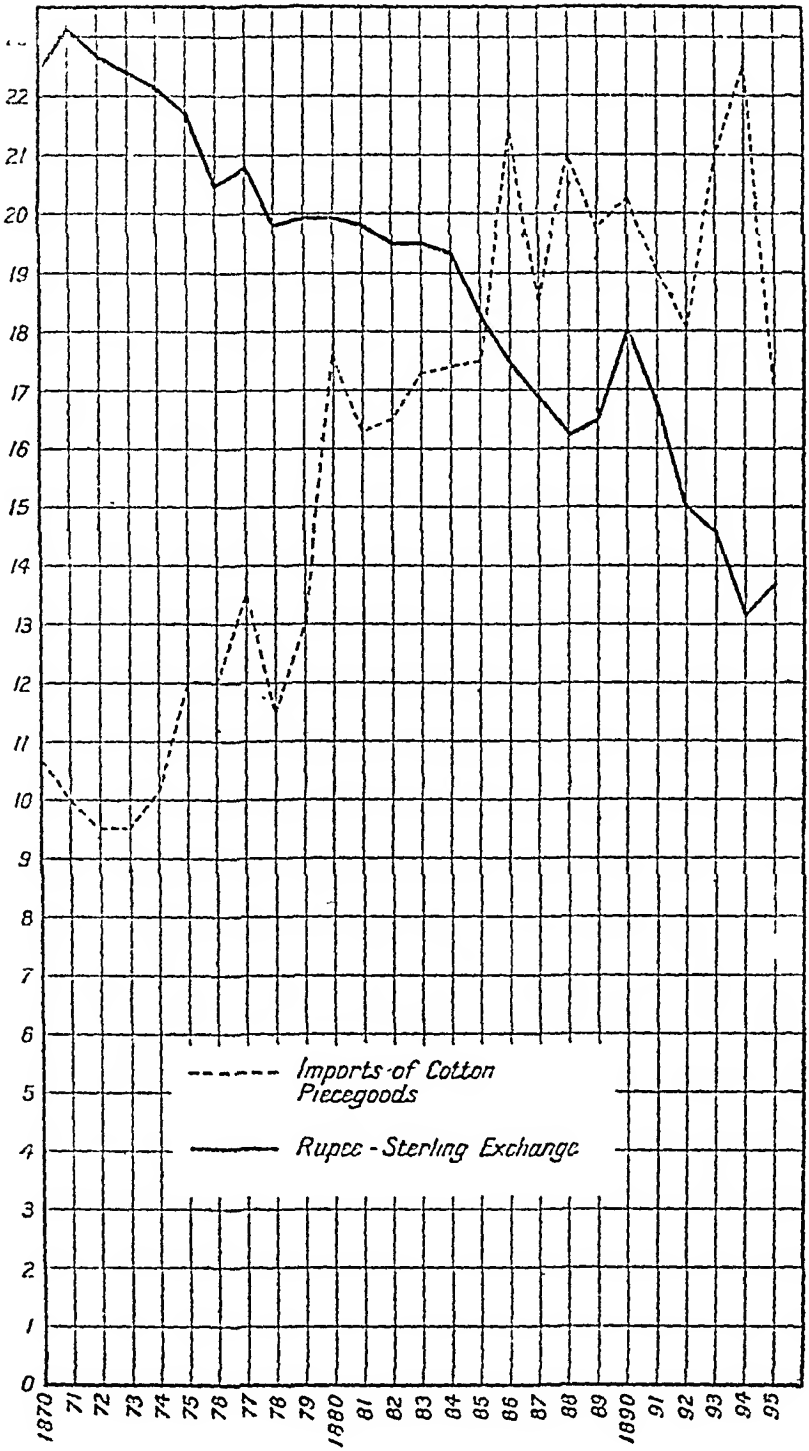

22
21
20
19
18
17
16
15
14
13
12
11
10
9
8
7
6
5
4
3
2
1
0
Imports of Cotton Piecegoods
Rupee - Sterling Exchange
1870
71
72
73
74
75
76
77
78
79
1880
81
82
83
84
85
86
87
88
89
1890
91
92
93
94
95

TABLE.

VALUES IN MILLIONS OF RS.

	Average, 1870-1 to 1874-5.		Average, 1875-6 to 1879 80.		Average, 1880-1 to 1884-5.		Average, 1885-6 to 1889-90.		Average, 1890-1 to 1894-5.	
	Q.	V.	Q.	V.	Q.	V.	Q.	V.	Q.	V.
Cotton Twist and Yarn (million lbs.)	33·55	28·39	33·55	27·81	44·34	34·25	49·09	34·60	44·79	31·85
Cotton Piece-goods (grey, white, coloured and printed) (million yds)	1004	147·65	1239	158·42	1699	211·25	1972	244·46	2019	262·50
Iron (thousand cwts.) ...	1059	8·67	2238	14·13	3083	17·98	3741	22·19	3623	23·95
Steel (thousand cwts.) ...	35	·866	89	·865	203	1·07	412	2·63	809	5·05
Copper (thousand cwts.) ...	216[1]	8·71[2]	301	14·02	451	18·61	491	17·75	465	19·13
Sugar (thousand cwts.) ...	435	5·56	584	9·29	958	14·46	1614	19·00	2345	28·57
Mineral Oils (million gals.) ...	—	·39	3·03	2·15	16·44	7·28	35·60	15·46	63·90	25·64

[1] The returns of quantities are incomplete before 1875-6.

[2] Including brass.

copper, received in substantial quantities from silver countries.

The conclusion, therefore, that emerges from our prolonged analysis is best expressed in the words with which Lord Herschell's Committee summed up their investigations on the point. "Upon the whole," wrote the Commissioners, "we cannot see any evidence that the effect of a falling exchange on the country at large, in influencing either exports or imports, has over a series of years been very considerable."[1] In this opinion the next Currency Committee of 1898, over which Sir Henry Fowler presided, fully acquiesced.[2]

IV

INVESTIGATIONS INTO THE REASONS FOR ABSENCE OF ANY PREVAILING INFLUENCE OF EXCHANGE ON INDIAN TRADE RETURNS

It is, however, interesting to note that we have in contradiction to our findings the authoritative pronouncements, first of the Ceylon Silver Currency Commission, 1893–4, that "the low price of silver has stimulated the production of many commodities" and "has been for the benefit of the greatest number," and subsequently of the Japanese Coinage Investigation Commission of 1896 and the Mexican Monetary Commission of 1903, substantially to the same effect. It falls outside the scope of our study to go behind the statements (which, at any rate, were expert opinions arrived at after long and careful study); but in view of such contradictory findings it behoves us to enquire into the probable reasons which might have caused in India results different from those which happened elsewhere.

We attempted to make it clear at the outset that the mere fact of a fall in exchange, apart from any knowledge of the conditions which brought it about or which followed in its

[1] *Op. cit.*, C. 7060, p. 12.
[2] *Op. cit.*, C. 9390, pp. 7-8.

train, does not enable us to form any judgment as to its effects. We must, therefore, begin our investigations from the fundamental source. A fall in the gold price of silver, reflecting itself in the exchange ratio between the rupee and the pound sterling (or the standard coin of any other gold country), was the obvious disturbing factor in the situation. It must, however, be realized that only if the price of silver in Europe went down irrespective of or faster than prices of other commodities and before silver fell in its purchasing power over goods in India, a bounty would, in the first instance, accrue to Indian exports from the disparity in the exchange and wholesale price-level ratios between India and other gold standard countries. What, indeed, was really the case ? Silver in England far from declined in value over commodities as distinguished from its value in terms of gold alone, and in India its depreciation was quickly forestalled.[1] In support of the first point a reference is invited to *Kemmerer's Modern Currency Reforms*, p. 18, where will be found a table presenting the figures (which have been worked out from authoritative sources) relating to the purchasing power of silver over commodities in the United Kingdom. As to the second part of the contention, the absence of any persistent imports of silver during the period was a strong presumptive proof in its favour.[2]

It seems, however, unnecessary to labour the point discussed in the previous paragraph. Even if we concede that there actually occurred a discord between exchange and wholesale price ratios on account of the fall in the gold price of silver, and there consequently arose a bounty on Indian exports, it is, as we explained here before, an indisputable fact that a discrepancy of the above kind always eliminated itself quickly and the bounty never lasted beyond a period of momentary duration. A carping critic may not, however, be satisfied with any such *a priori* reasonings. We may well

[1] *Vide* Pierson's reply to the Circular of the Gold and Silver Commission, 1886, Second Report, App. VII (1), p. 254.

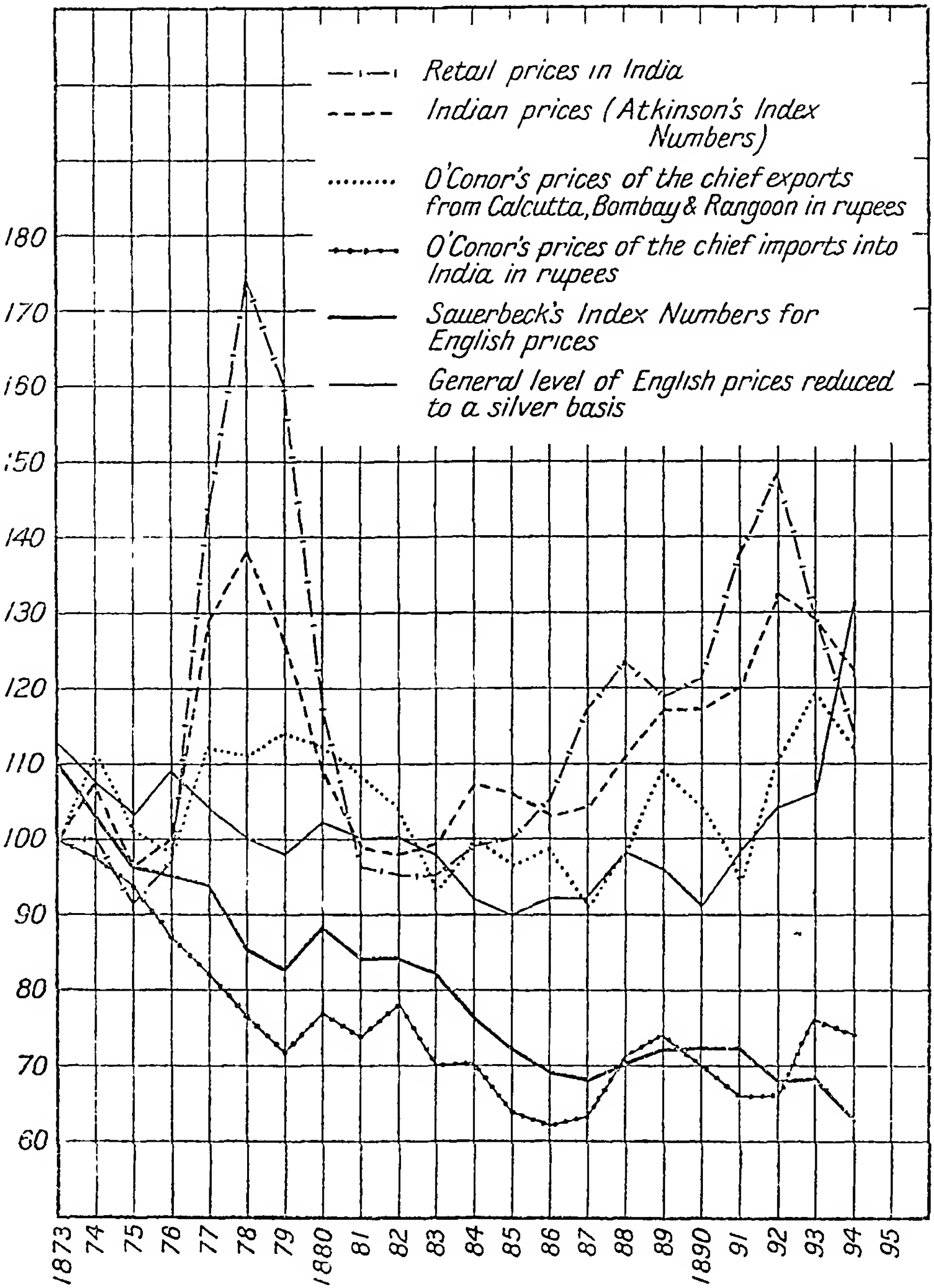
[2] The net imports of silver between 1873-4 and 1892-3 were, in fact, less than that which had been imported in previous twenty years, being Rx. 1,57,048,219, against Rx. 1,57,874,482 in the latter period. Figs. calculated from columns 12 of Table Nos. 1 and 2 of Fowler Com. Report, App. II, pp. 134-35.

imagine him saying that the action of competition is never so thorough and quick as the theorists are disposed to believe. We deem it necessary, therefore, to introduce some statistics in order to show that the price-levels of traded goods in England and in India were throughout the period in close adjustment to each other.

Let us now cast a glance at the appended chart and concentrate for the moment our attention on the three curves which respectively represent the rupee prices of exports from and imports into India and the general English prices expressed in terms of silver.[1] We can easily discern from it the close parallel movements, broadly speaking, of the Indian export prices and the silver prices of commodities in England. To a superficial glance the curve illustrating the prices of chief imports into India will, however, reveal no readily recognizable resemblance to the line which traces the course of the English prices of commodities reduced to a silver basis. Yet a close inspection will show that the general trend of the one curve is, on the whole, quite similar to that of the other; only the prices of Indian imports will appear to have moved during the greater part of the period much faster down than the average English prices. This apparent disharmony was not, however, the consequence of any absence or lag of adjustment between the two. On the contrary this was exactly in conformity to what ought to have been the case and was to be explained on the following ground. On account of the development of more efficient methods, there was an especially heavy reduction of the prices of cotton manufactures and of iron. Now, the English price-curve represented a summary expression of the price movements of the numerous articles entering into the national economy of that country. In such a medley of changes it was but natural that the effect of any particular diminution of the prices of cotton goods and iron would be largely obliterated. On the other hand, the above two items, it was hardly an exaggeration to say, comprised nearly the

[1] The price quotations of British standard silver in London according to the Pixley and Abell tables have been used for the conversion of English gold prices into silver prices.

Graph No. 9.


Retail prices in India
Indian prices (Atkinson's Index Numbers)
O'Conor's prices of the chief exports from Calcutta, Bombay & Rangoon in rupees
O'Conor's prices of the chief imports into India in rupees
Sauerbeck's Index Numbers for English prices
General level of English prices reduced to a silver basis
180
170
160
150
140
130
120
110
100
90
80
70
60
1873
74
75
76
77
78
79
1880
81
82
83
84
85
86
87
88
89
1890
91
92
93
94
95

entire value of imported goods in India and thus had a preponderating effect on the shape of the curve illustrative of Indian import prices in general. Thus we can clearly conclude our discussion with the statement that the statistical evidence on the whole bears out our *a priori* assumption, namely, that there existed throughout the period a close adjustment in regard to prices of internationally-traded commodities at the ports.

What, now, about the general price and wage movements? It is well to recognize from the beginning that during the greater part of the period the yearly increasing difference between the relative exchange value of gold and silver currencies was an expression both of appreciation of gold and depreciation of silver, but chiefly of the former, especially till 1885.[1] The marked fall in gold prices, more especially till the year 1885, is clearly exemplified by the curve illustrating Sauerbeck's index number for general prices in England and was ostensibly brought about by the extension and improvement of production all over the world and cheapening of means of communication of which England naturally obtained the full advantage under her free trade policy.[2] It was, no doubt, often contended that such decline in gold prices of Indian products as occurred during the period was directly the outcome of a falling rupee exchange, but as the Currency Committee of 1893 pointed out, that "having regard to the phenomena presented in the case of Indian products not greatly open to competition, and to the necessary effect of competition in the case of those which are within the sphere of its influence, it seems far from clear that the fall in the gold price of Indian products would have been materially less if the exchange had not fallen." The decline in price-levels in gold standard countries was, therefore, beyond all reasonable doubt a phenomenon, independent of any alleged competitive effects from silver countries. Looking now at the general price-level in India,

[1] *Vide* here the table already referred to in Kemmerer, *op. cit.*, p. 18.

[2] Fowler, *op. cit.*, p. 301.

as represented by the broken line on the annexed chart No. 9, we observe no very sure and adequate indication that prices permanently settled themselves at any higher level up till 1885. But subject as the Indian price-level always is to violent changes, consequent on seasonal fluctuations, it is always difficult to predicate anything about it with confidence. In this connection it is in the first place worth noticing that in the base year 1873–4 prices were to a certain extent artificially lowered on account of the control exercised by the Government over the grain markets of Upper India for the purpose of conserving an adequate supply of grains in the tracts affected by famine.[1] Secondly, although prices fell below 1873–4 level during the years of good harvests from 1881 to 1885, yet it was significant that they were, generally speaking, on a higher level as compared with any former year of equally good and abundant crops.[2] In consideration of the above facts, a slight upward movement of prices between 1873 and 1885 might, therefore, on the whole, be presumed. However, whatever room for differences of opinion might exist as to the probable trend of Indian prices up to 1885, their upward tendency since that date was beyond all question.

Looking once more at the diagram, it will doubtless appear at the first glance that the yearly fluctuations of general prices in India bore no relation to corresponding movements of English silver prices. We must not, however, run precipitately to any conclusion from this. Let us not here forget the fundamental distinction between price movements in India and in England. The price-curve of an agricultural country like India, especially during a period when seasonal variations were frequent and extreme, was bound to be a curve of "greater disquiet" than that which traced the course of price fluctuations in a pre-eminently industrial country like England. If we concentrate, as we ought to, on the broad movements of prices rather than on yearly fluctuations, it becomes evident that the tolerably flat base

[1] O'Conor, *Prices and Wages in India*, 1886, p. 5.
[2] *Ibid.*, p. 9

of the Indian price-curve up to the year 1883 (the occasional sharp peaks were caused, be it remembered, by unfavourable seasons) and its rather steep ascent from that time onwards broadly fitted in with the course traced by English silver prices which likewise showed no decided upward trend until 1883, but since climbed, albeit somewhat more jerkily, a similar path of ascent.

As we proceed now to study the course of retail prices (see the dash and stroke line on the diagram) based on seven chief food grains, which form the chief purchases and sales in India, we should bear in mind that such prices, especially in areas remote from European influences and still more when the grains themselves belong to the category of what are called non-traded goods, are subject to enormous fluctuations from year to year, in a manner quite unthinkable in a country like England. When we make proper allowance for them, we cannot but admit that retail prices behaved during the period in fairly close conformity to wholesale prices. As with wholesale, so with retail prices, the real trend was in the beginning obscured by capriciousness of price movements. Nevertheless, how much soever the fact may have been disguised, there was on the whole discernible in regard to both the curves a slight upward inclination. In both cases again the tendency, at first not so clear and unmistakable, made itself definitely pronounced from 1883 onwards.

As regards movements of wages, it is in the first place to be borne in mind that over a large range of customary payments wages are paid in commodities and not in money and therefore directly vary as prices. When, however, we speak of money wages, for a country like India, where customs and traditions dominate the economic system even to this day, the first presumption will naturally be that they must have been extremely slow to change or more probably they had not changed at all. Let us see what was really the case. We may preface our discussions on the point with an opinion which O'Conor expressed in the course of his review of wage changes from 1861–73 to 1874–87. He

observed that, "although to a large extent wages are a matter of custom rather than of competition, still they have to a visible extent a tendency to follow the course of prices."[1] But our great difficulty on the point is that wages statistics themselves were so imperfect and defective that any conclusion drawn from them must be accepted with considerable reserve. Moreover, not to speak of the obvious limitations of wages statistics for India as a whole, they were open to the further objection that, compiled as they chiefly were from urban and suburban sources, they were hardly representative of wage conditions in remote rural areas.

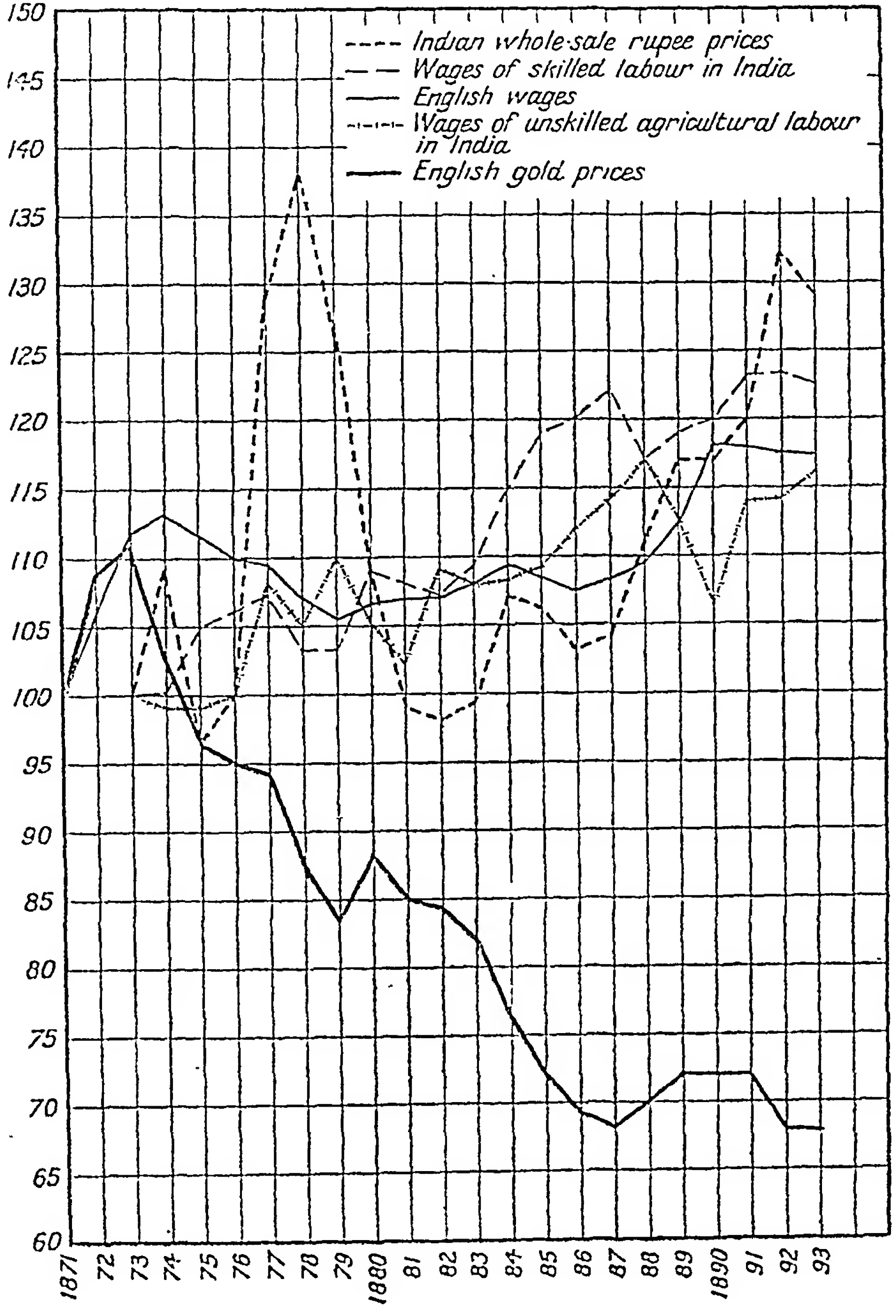
Taking them for what they are worth, we represent in the appended chart here the average wage rates in India for skilled and unskilled labour from 1873, from which it may be seen that wages, both of skilled and unskilled labour but more especially the former, steadily advanced with the rise of prices. If it is borne in mind that, "on the whole the wage of skilled and unskilled labour in 1873 was rather higher than the average of the 14 years which ended in that year, wages would not appear to have lagged so far behind even during the abnormal years of 1876–1880." It is noteworthy that, during 1881–7 when prices receded from the abnormal level reached in previous years, the rates of wages exhibited no such tendency.[2] Not only was the higher level fully maintained, but wages actually went still further up, and even until the year 1892 the wages of skilled labour seemed to have been well in advance of prices. It was only for a few years from 1889 that the wage rates for unskilled agricultural labour failed to a certain extent to keep pace with the especially rapid movement of prices which had set in since that date.

It must now be quite patent that the general assumption of many business men of the time and even of some economists regarding the immobility of Indian prices and

[1] O'Conor, *Indian Price and Wage Levels*, 1861-73 and 1874-87, p. 39.

[2] *Cf.* "In India wages do not show any rapid tendency to recede from a higher level reached under special and temporary conditions." O'Conor, *Wage and Price Levels*, 1861-73 and 1874-87, p 19.

GRAPH No. 10.


Indian whole-sale rupee prices
Wages of skilled labour in India
English wages
Wages of unskilled agricultural labour in India
English gold prices
150
145
140
135
130
125
120
115
110
105
100
95
90
85
80
75
70
65
60
1871
72
73
74
75
76
77
78
79
1880
81
82
83
84
85
86
87
88
89
1890
91
92
93

wages during the period of depreciating silver was based on a hypothetical belief in the so-called unchangeability of the East than on any actual scrutiny of facts. A very conspicuous example of this was offered by so distinguished an economist as Professor Taussig. In an article contributed to the *Quarterly Journal of Economics*, in 1896, he opined: "The flow of specie to the East, which has gone on for centuries, has continued in much the same manner and as yet with much the same effects as before the fall in the price of silver. Great quantities of that metal have continued to go to the East and there to sink away. Prices have responded but slowly and feebly; and with the decline in the gold price of silver, the Indian freedom of imported goods has had virtually the benefits of protection, while the Indian producer of exported goods has had virtually a bounty."[1] Our evidence is clear and adequate enough to challenge, if not unquestionably to refute, the above statement.

We must, however, be cautious not to overrate our case. Evidently there was far from anything like mathematical precision in regard to the adjustment of Indian prices and wages. Besides, it must be borne in mind that our data were in many cases imperfect and unreliable and no index number, however perfect, corresponds to a real thing, but is at best an indication of a mere general drift. It cannot, therefore, be denied that in some years a certain degree of stimulus may at random have been provided by a sudden fall in exchange, but our contention is that, conditions having adjusted themselves fairly quickly, any accidental advantage of this kind speedily died out. It is also probable that sometimes, as circumstances approached adjustment to one fall, an additional fall may have meanwhile occurred and somewhat prolonged the interval before the leeway was wholly made up. Such spasmodic influences, it must, however, be recognized, could not have provided any systematic protection or bounty to Indian producers; they merely

[1] October, 1896, p. 6.

served to make trade proceed in a "series of rushes and pauses."

If now we look at the curves of English prices and wages (see the chart on page 173), we doubtless observe a gradually widening discrepancy between them. Quite apparently the English wage-level did not show any inclination to tread the footsteps of the descending price-level of England, perhaps because organized trade unions stood as an obstacle in the way of any necessary adjustment. The situation doubtless offered an opportunity to the producers of our country to profit at the expense of the embarrassed rival countries where, as in England, wages did not quickly accommodate themselves to the rapid fall of prices. In the last analysis, however, as we shall hereafter more fully discuss, the range of effective competition between Indian products and those of gold countries was very narrow indeed. The opportunity brought to the Indian producers by the conjuncture described a moment ago was, therefore, more theoretical than of any actual practical consequence.

V

CONCLUSION

In the light of our above discussions, it should not now be difficult to see why the much talked of exchange stimulus proved to be more or less a chimera, when subjected to the actual test of our trade figures. Thus, at the end of our study, it transpires that in the actual course of the development of our trade, the currency and exchange factor counted for very much less than was generally supposed. We averred at the outset and we affirm it once again that our foreign trade during the period was undoubtedly harassed by violent fluctuations of exchange, and this, in our opinion, was the only persistent influence which exchange exerted on trade throughout the period. It is not, perhaps, necessary to

remind the reader that thanks, however, to unprecedented reduction in sea freights, total absence of all customs barriers, and above all to the driving force of the new economic environment, our commerce with foreign countries triumphed over this as over every other obstacle, and its record during the period, though somewhat chequered, was on the whole such as we might look upon with feelings of satisfaction.

CHAPTER VIII

Currency Changes and Trade Development after the Closure of the Mints

I

HISTORICAL INTRODUCTION

In this chapter we shall discuss the significance and effects from trade point of view of the new aspect which the currency situation acquired after the closure of the Indian mints to the free coinage of silver in 1893.

Into the details of the monetary history—how the India Government's first proposal as far back as 1878 to adopt a gold standard was turned down, how the Government of India since pinned its faith on the probable international acceptance of the bimetallic standard and thus "sat contentedly on the eggs which had long since been addled," and how at last the faintest ray of bimetallic hope vanished into thin air with the unsuccessful termination of the Brussels Conference in October, 1892—the scope of our subject does not permit us to go. Be it enough to note that till 1893 nothing was actually done towards currency reforms though much ink was spilt on the subject in frequent despatches between the Government of India and the Home Government. Quite apart from considerations of other inconveniences of a depreciating exchange, it was imperative for the Indian exchequer to find a way out of the *impasse* in which it found itself on account of the growing burden which every fall in exchange added to its sterling obligations. The lukewarm support which the object of the Brussels Conference received from the British Government made its failure almost a foregone conclusion. So in the beginning of

1892, some time before the Conference assembled, representatives of mercantile communities brought the question of the gold standard for India once again into prominence. Accordingly, on 21st June, 1892, the Government of India moved the Secretary of State for permission to close the mints to free coinage of silver and take other necessary steps for the introduction of a gold standard in default of any agreement on bimetallism at the Conference. The communication led to the appointment in October, 1892, of the Indian Currency Committee, under the chairmanship of Lord Herschell.

Lord Herschell's Committee, which reported in May, 1893, approved of the India Government's proposal for the immediate closure of the mints, with a view to the ultimate adoption of the gold standard, subject to the safeguarding proviso that the Government would at the same time pledge itself to supply rupees in exchange for gold and to accept gold in payment of public dues at the rate of 16d. to the rupee. The adoption of 16d. rate was not suggested as a permanent step but was recommended on a purely tentative basis, especially, among other reasons, to provide against the very probable contingency of a great and sudden advance in exchange.[1]

The above recommendations were accepted by the Government and given effect to on 26th June, 1893. At the time of the introduction of the measure into the Council, the Finance Member said: " It may be that the gold standard can be made effective from the first, though it will not be secure until there is a considerable amount of gold in our treasuries and banks. Or it may be that the making of the gold standard effective, and the establishment of it on the same basis, will involve a long and arduous struggle, and

[1] *Cf.* " The object of providing for the issue of rupees in exchange for gold at 16d. the rupee was to prevent any great and sudden rise of exchange, and the Government did not undertake either to establish 16d. per rupee as the permanent ratio of exchange between gold and the rupee, or to establish any other permanent ratio immediately or within any specified time." Reply by the Hon'ble. Sir David Barbour to a question asked by the Hon'ble Mr. Mackay in the Council of the Governor-General of India on 31st August, 1893. See *Abstract of the Proceedings of the Council of the Governor-General of India*, Vol. XXXII, p. 306.

necessitate heavy sacrifices. Time alone can show which view is correct."[1] Unfortunately, however, it was the pessimistic view which proved to be true. The period of transition, much longer than was at first generally anticipated, turned out as one of extreme tension, while the absence of any definite scheme to put the rupee on a gold basis and the vague but widespread general suspicion, not altogether unjustified, that the Government aimed at a higher value of the rupee than was warranted by laws of supply and demand, were not calculated to bring back confidence quickly.

It was, no doubt, obvious to everybody that the first effect of the new policy would be to transfer all the disadvantages of fluctuating exchanges from trade with gold standard to that with silver standard countries. It would thus be setting up between India and the Far East the very barrier which was harassing her trade with the West. It was, no doubt, rightly urged that Indian trade with gold countries was twice as great as trade with silver countries and this was one of the chief considerations which turned the scale in favour of the change. But, on the other hand, the fact was not altogether to be neglected that the importance of the Eastern trade was not to be measured merely by its volume; for, the prosperity of the one genuinely national industry, which was yet in its formative period, was very much bound up with the Eastern markets. Further, any adverse effect on trade with silver countries was especially prejudicial to the interests of a debtor country like India which was at the time more dependent on its commercial intercourse with silver countries than upon that with gold countries for the maintenance of its favourable balance of trade.[2] On the whole, however, it is impossible to deny the desirability of the change which, to borrow the elegant language of Marshall, was like "bringing the railway gauge on the side branches of the world's railways into unison with the main lines."[3] It was, therefore, only an irony of events that, while the silver exchange at once broke

[1] *Proceedings of the Governor-General's Council, op. cit.*, p. 276.
[2] See Chablani, *Indian Currency and Exchange*, pp. 109-10.
[3] *Op. cit.*, C. 9222, Q. 11,815, pp. 80-81.

loose from its old moorings and all its evils only too quickly appeared, the much expected stability of gold exchange was rather slow to come.

When the proposed currency changes came to be known, speculation was encouraged by a pervading sense of optimism. The opinion came somehow to prevail that the 16d. ratio would become effective from the first. The exchange which stood at 1s. 2$\frac{5}{8}$d. on 31st May, 1893, the date of the Herschell Report, was forced up by the operations of the "bulls" (if the epithet be permitted) in the exchange market and for a day on 27th June it even touched 1s. 4d. The reaction was quick to come. The subsequent fall in exchange was only as heavy as the rise was great. The real nature of the meteoric rise in exchange was hardly perceived at the time. The Government was easily deluded into the belief that they had very nearly attained their object. They therefore persisted as far as they could till January, 1894, in a strenuous but unsuccessful attempt to peg the exchange by insisting on a minimum price for Council bills. Confusion became worse confounded when the Government, after one unsuccessful attempt to prop up exchange at a certain point, proceeded in turn to hold out for another and lower minimum. Such arbitrary interference with exchange only helped to enhance still further the atmosphere of doubt and distrust, and put a further premium on speculation. For a time it had indeed almost a paralysing effect on export trade. Meanwhile exchange, which had scant respect for Government fiat, followed its downward course until, on January 23rd, 1895, the nadir was reached at 1s. 0$\frac{13}{32}$d. At that point the tide turned and there began a steady upward movement so that exchange regained the rate of 16d. in the beginning of 1898. It appeared that the Government's attempt to obtain a 16d. rate by starving the circulation was at last rewarded with success. Nevertheless the future was yet far from clear and certain. So many other factors were influencing exchange at the time one way or the other that doubt and uncertainty still lingered in every mind. There were, for instance, the effects of famine, plague and war which, on the one hand, tended to drag the exchange down. On the other, there were

heavy borrowings in London on behalf of the India Government, large reductions of the Secretary of State's drawings, shrinkage of imports of silver due to closure of mints and subsequent imposition of import duty and lastly the upward trend of gold prices especially manifest after 1896—all more or less tending to force it up. Then, as we said above, there haunted in the minds of the people nervous suspicion about the future of the Government's policy itself. The outcome of this prevailing air of scepticism was an eager haste on the part of the Europeans to strike while the iron was hot and to seize any opportunity of a rise in exchange to convert their investments and savings into sterling. Such remittances only added still further to the fluctuations and uncertainties of exchange.

Thus we see the truth of what was said in the beginning—a policy which aimed at increased certainty in regard to Indian trade with Western countries was actually followed by increased uncertainty. Even if the actual fluctuations did not nearly approach those of the past,[1] they were yet wide enough to disturb expectation and infuse a spirit of uneasiness and thus embarrass and clog the wheels of trade. In some respects they had even worse effects, because they were often more unexpected.

II

FALLING EXCHANGE AND PROBABLE GAIN OR LOSS TO INDIAN TRADE

The innovation of 1893, it was very much feared, would be attended with some very grave and disastrous consequences for Indian industry and trade. Since too much was made of the falling exchange at the time, it may not be inappropriate to emphasize here the very strictly limited scope of any gain that a falling exchange may in any case confer. It is quite manifest that the alleged advantage of a falling

[1] See *Despatch of the Govt. of India to the Secy. of State, Cal, 3rd March, 1898, East India (Currency)*, C.8840, p. 4.

exchange can last only during a temporary period of disequilibrium, more or less varying in duration according to circumstances. Generally speaking, therefore, no country can permanently benefit or suffer in respect of its natural advantages merely by changes in the external value of its currency. As Professor Marshall says, " The change in the currency does not affect the amount of calico which can be brought back for a chest of tea of a given quality, and therefore it does not affect the advantages of the trade as between the nations."[1] It must also be obvious that whatever prosperity may come in export industries will be derived at the expense of the wage-earners which, of course, means an entirely unwelcome change in social conditions. A point must, therefore, soon come when the injury inflicted on consumers and labourers will wholly outweigh any advantage that a falling exchange may bring to the producing classes. Were it not the case, continuous depreciation of currency till it was as cheap as sea-sand would have opened the shortest cut to industrial success for a nation. Truly was it remarked by Mr. Mackay (afterwards Lord Inchcape): " It is as hopeless to expect prosperity from a continuously falling exchange as it is to expect health in the human body from continuously increasing the use of stimulants. In both cases, the reaction must sooner or later come."[2]

It is, however, conceivable that abiding benefits may incidentally result from such casual encouragement of production, if the opportunities of the transition period can properly be turned to account in introducing improvements. For, such economies when once acquired are never wholly lost and they may in some cases prove just useful in helping suitable but struggling industries on to their feet or in enabling some growing industry to capture some foreign market. In actual practice it is highly improbable that mere chance gains without any reasonable certainty of their continuance will ever lead to adoption of any substantial improvements. Anyway, the very suggestion that any such opportunity, assuming it to have arisen, was likely to be

[1] Fowler Com. Rept., *op. cit.*, C. 9222, Q 11,792
[2] Herschell Com., *op cit*, p. 312.

seized upon for the introduction of any perceptible improvements in regard to the production of most Indian exports, cereals and fibres, is on the face of it absurd. Grown as such commodities are by small cultivators, steeped in ignorance and poverty, who probably seldom shared the gains, if any, from falling exchange, it is hardly necessary to point out that there must precede a radical change in the routine of their life and a considerable enlargement of their mental equipment before it was permissible to talk of our peasants sloughing off their time-worn methods of production, much less to take prompt advantage in the manner above indicated of any opportunity which falling exchange might place at their disposal.

If we really think over the matter carefully, there is no escape from the conclusion that, in her circumstances, India, in fact, had very little to benefit from falling exchange, though she had much to lose in several ways. Assume for a moment that a regular exchange stimulus actually occurred. What, then, would be the probable range of permanent gains?

In respect of not a few exports (*e.g.*, opium, rice, coffee, tea), competition in which, whether actual or potential, rested with countries whose currencies were equally or even more depreciated, falling exchange would evidently bring our producers no superior advantage over their rivals. In such commodities as wheat, cotton and wool, the superiority was so decidedly and overwhelmingly with foreign countries that there was no question of India stealing a march over them through the surreptitious influence of a depreciating currency. In jute she had anyhow an impregnable position and had therefore hardly anything to gain from such adventitious aids. Indigo, too, was more or less her monopoly during the period and no dose of exchange stimulus could have saved it from the staggering blow which was ultimately dealt to it.

Of the two important infant industries, jute and cotton, the former, with its great natural advantages, needed no crutch to stand upon. The cotton industry, too, was at the time firmly secure against any external competition in the particular classes of goods which it supplied in the home market. The manufacture of native mills consisted almost

exclusively of coarse goods in respect of which the advantages were overwhelmingly in favour of the domestic producers. They were constantly driving the foreign competitor out of the Indian market, and nobody even suggested that their power to do so was in any way dependent on the currency situation. In fact, by the time the mints were closed, they had established their complete supremacy within their own sphere, and the competition between domestic and imported goods had narrowed down to an insignificantly small area. On the one hand, there was no earthly chance that the foreign manufacturer would be able to reassert himself in a market where the advantages were so preponderantly in favour of the indigenous producer, and on the other, owing to bounds imposed by the character of the indigenously grown raw cotton, there was no immediate prospect of the native industry entering into the production of the finer range of goods and encroaching in any appreciable manner upon the ground of which the foreign manufacturer was in complete possession. Obviously, then, any artificial advantage for the cotton industry was at the moment wholly superfluous.

It may again be hastily supposed that the rapid expansion of our yarn trade with China was materially assisted by the currency situation which enabled our goods to compete under more favourable circumstances with similar British products, and consequently the loss of the above stimulus might prejudicially affect the future of the trade. The fact, however, was, as Professor Sargent clearly pointed out, " Indian yarn was finding a market, hitherto untouched."[1] " The real change," which was happening, " was in the substitution, in the hand-loom industry of China, of Indian machine-spun yarn for that from the native raw cotton."[2] The competition which indeed arose after the stoppage of the mints was not with Great Britain but with Japan, and, as we shall hereafter see, there was no ground to suppose that the course of our cotton export trade to China would have been materially different from what it actually had been in case India chose to remain on the silver standard.

[1] *Op. cit.*, p. 259. [2] *Ibid.*

The conclusion is therefore inescapable that, even assuming the existence of a regular exchange stimulus during the years when the mints were open to the free coinage of silver, India had hardly anything to gain from the maintenance of the *status quo* in respect of the currency situation. On the other hand, there was no doubt of the fact that a continuously falling rupee discouraged that investment of foreign capital in India on which her economic future so largely depended. For, " . . . those who are able to lend capital to India live exclusively in countries with a gold standard; and those people are apt to regard gold value as a fixed point, and to treat variations in the gold value of the rupee as equivalent to variations in its real value. . . . But this habit of thinking of gold value as a fixed point, whether right or wrong, does affect the willingness of investing nations to send their capital to India; and it makes them grasp . . . at an opportunity of getting back their capital on good terms in gold."[1] The extent and character of the loss from this cause can only be realized when we remember that the execution of important public works calculated to add to the development and prosperity of the country, exploitation of all her resources with which she is so richly endowed by nature, and the pace of her industrialization, all hinged on an adequate and regular inflow of foreign capital into the country. Such being the case, who would desiderate the so-called stimulus from falling exchange for India?

Nevertheless, it is true to say that it was a fairly general belief among Indian business men at the time that they were actually reaping a profit from falling exchange and they very much apprehended the loss of the fancied gain. The extremists among them filled the sky with vociferous predictions of an inevitable and disastrous commercial setback. Java loomed large before the eyes of such alarmists as the shocking example of the fatal consequences of the abandonment of silver standard. Impartial observers tried in vain to comfort them with the assurance that what they believed to have been the effects of suspension of free coinage in that country were, in fact, attributable to extraneous and more

[1] Marshall, *op. cit.*, Q. 11, 773.

or less accidental circumstances. Even the fact of Java's subsequent recovery from the crisis which befell her in the past instilled no hope in their minds.

It is, however, as useless to argue against a purely assumed point as it is to fight against a shadow. Our review of trade for subsequent years showed that no such dire consequences ever ensued. On the other hand, there cannot be any doubt that the long-run effect on every branch of export trade was decidedly for the better. The only two lines of exports which appear not to have done well in subsequent years were coffee and indigo, but they were already on the wane for special causes of their own. In the case of coffee, the competition was with Brazil, which had not merely the whip-hand of the market but was itself on depreciated paper. Only a regular race in depreciation could have kept up on balance any such spurious advantage for India; and, after all, the coffee industry cannot be regarded as having fared at all badly when its records in years immediately before and after the closure of the mints were compared. As for indigo, when we come to know the true cause of its decline, all fears, expressed at the time of the closure of the mints, only serve to remind us of the story of the one-eyed deer which apprehended its danger where it did not come from.

III

EMBARRASSING ASPECTS OF THE CLOSURE OF THE MINTS EXAMINED IN REFERENCE TO THE COURSE OF TRADE

There were enough of gloomy forebodings from the birds of evil presage. It is hardly worth while to recall them all from their deserved oblivion. We turn straight off from what was a mere bugbear to such considerations as afforded real causes of anxiety.

The question of probable loss or injury from the closure of the mints presented itself under the following aspects: (1) Embarrassments of trade with silver standard countries.

(2) Stimulation of imports under more favourable circumstances from silver countries into India and the consequent loss or injury to domestic industries. (3) Check to Indian exports in competition with silver-using countries both in their own as well as in neutral markets.

With reference to trade with silver standard countries, the rupture of the par of exchange was no doubt the first obvious inconvenience to be reckoned with. But it was a risk which, we know, was deliberately taken. For a time, indeed, the consequence was nothing short of disastrous. Within a week of the closure of the mints, the price of silver dropped from 37½d. to 30d. The effect of so sudden and violent a fall on exchange and trade is better imagined than described. The exchange between India and China, for instance, which all along stood at about 220 rupees per 100 dollars, at once tottered down to Rs. 192, and trade was virtually brought to a standstill.[1] The effect of disturbance on trade with silver countries lingered for five months, during which commerce was very much harassed and interrupted. As wholesale prices at the ports began to reaccommodate themselves, conditions began to be more normal. True it is that in subsequent history of silver exchange there never was repeated so sudden and violent a shock as happened immediately after the closure of Indian mints. All the same the price of silver, assisted still further by the repeal of the American silver purchase clause which came immediately after, followed with constant fluctuations its path of descent. It will be contrary not merely to theory but to all experience to say that a state of affairs so eminently unsettled had not its deterrent effects on trade. It is, however, reassuring to note that in the long run the embarrassments of exchange fluctuations were not able to make themselves prevail. In spite of all eccentricities to which silver exchange was heir, trade with silver standard countries, as may be seen from column one of the table on page 188, more or less went forward from year to year since 1893-4. From this table it will also appear that, as compared with trade with gold standard countries, which, however, was no less

[1] See *Review of Trade for India*, 1893-4, p. 4.

subject to the same kind of harassing influences, trade with silver countries fared, on the whole, better. It is also instructive to note that, while in previous years the percentage share of the total Indian trade with silver countries was steadily on the decline, in after years it generally pointed towards an increase, though the result was brought about more by the fall in the value of trade with gold countries and less by rise in trade with silver countries.

We now advert to the next point—how India was for the time being on unfair terms of competition with silver countries and how far, if at all, she suffered from its consequences. With the cessation of free coinage and the

TABLE.[1]

Year	Total trade with silver standard countries (1) Rx.	Percentage of (1) to total trade (2)	Total trade with gold standard countries (3) Rx.	Percentage of (3) to total trade.
1892-3 ...	45,861,456	24	147,218,375	76
1893-4 ...	45,865,861	23	156,988,679	77
1894-5 ...	46,995,652	24	149,703,809	76
1895-6 ...	50,235,375	25	150,935,446	75
1896-7 ...	50,378,113	26	143,452,125	74

Government's careful policy not to add to its circulation, the rupee naturally became divorced from the market value of its silver contents, and became linked up with gold at a more or less fixed value. Since 1896, as we may recall, it became definitely anchored to it. On the other hand, *pari passu* with the fall in the market price of silver, which the suspension of the rupee coinage itself had to a large extent precipitated, the foreign exchanges of China and such other countries continued to depreciate. But they now depreciated in reference not merely to gold countries of the West as in the past, but in reference to India as well. If, then, on account of the characteristic inertia of Eastern countries,

[1] Figs. are from different issues of the *Review of Trade for India*. From 1896-7, Japan, formerly on silver standard, becomes a gold standard country, so that subsequent figures will not bear comparison with figures of previous years.

inland prices, wages, etc., were long kept from adjustment, the producers and exporters there would obtain the artificial advantages which, as we observed, did in such circumstances arise from depreciating currency. It would thus introduce serious complications into Indian trade, faced as it would be with the augmented competitive power of its rivals wherever they met together. Again, the advantages, assuming them to have arisen, must have constantly increased and affected India more and more adversely as the disparity between the exchange value of the rupee and its intrinsic value widened with the lapse of years.[1]

To take, first of all, the case where some Indian industry may have been prejudicially affected at home by some artificially stimulated imports from silver countries. The only instance of this kind of competition was provided by the already decadent Indian silk trade, which more and more was being replaced even in the domestic market by imports from China. It was already so reduced in importance and its inferiority and difficulties were so manifest that the point was hardly pressed even during the stormy days of currency agitation. The true causes of the decay of the silk industry and trade and the reasons for the comparative efficacy of Chinese and Japanese manufacture form, however, an interesting side issue which we cannot discuss here. It is sufficient unto our purpose to note that no one ever suggested conditions of exchange to have been in any way accountable for the inroad of the Far Eastern silk into our market.

Next we take up the question of Indian competition with

[1] The actual figures were :—

Year.	Lowest price of silver. (1)	Intrinsic value of the rupee. (2)	Exchange value of the rupee. (3)	Difference between 3 and 2.
1893 ...	33d.	11⅞d.	14¼d.	2⅜d.
1894 ...	27d.	10d.	13d.	3d.
1895 ...	27d.	10d.	13⅝d.	3⅝d.
1896 ...	29d.	10¾d.	14½d.	3¾d.
1897 ...	23¾d.	8⅞d.	16 1/32d.	7 5/32d.

From Fowler Com. Evidence, Q. 238.

silver countries in the latter's own grounds. Of such countries, with which India had commercial intercourse, only two deserve notice in this connection, China and Japan. From the standpoint either of importance of trade or of its size, China was no doubt by far in the lead. Of the rest, the Straits Settlement was the only country which may be said to have had Indian trade of any magnitude. Our commercial transaction with that country was, however, to a preponderant degree transit trade only and does not, therefore, concern us here directly in regard to the particular point which is now under discussion. Our Japanese trade was without doubt as yet very small, in fact smaller than that of many other silver-using countries. We cannot, however, leave it out of our consideration here not merely because it already showed considerable promise of development, but because it possessed in many respects an importance largely in excess of its actual volume.

To take, first of all, the case of China. There, according to the index number published by Fisher in his *Rate of Interest*, p. 426,[1] prices in Shanghai showed an advance of nine per cent. only between 1873 and 1894, although the exchange depreciation of the Chinese currency in reference to gold was many times more over the same period. It must, moreover, be borne in mind that " prices in a busy corner like Shanghai were not to be taken as representative of China generally. Their influence would not be felt 100 miles in the interior." It seemed " quite certain," said the then English Consul at Shanghai, " that up to 1894 or 1895 there was no perceptible rise of silver prices in China." Since 1895 " a rise in numerous articles of export " was without doubt noticeable, but this, in his opinion, was the result of the upward movement of gold prices which had set in at about that time and he further affirmed that the higher export prices had not yet reflected themselves in cash prices in the interior. It appears that copper cash, the chief medium of internal retail transactions, had, between 1870 and 1898,

[1] Fisher's index number is based on an average of 3 tables of 20 inland commodities, 17 articles of export and 15 foodstuffs as culled from the reports of the Consuls of England and Japan in China.

but more especially during the last few years, appreciated to the extent of 15 per cent. in terms of silver. This, however, was no sure indication that the latter had suffered an equivalent diminution in respect of its purchasing power over commodities in the interior. For any such inference would be warranted only on the assumption that the appreciation of copper cash was entirely in reference to silver alone and it did not in any way represent appreciation over other commodities. In the opinion of the Consul, whom we previously quoted, it was altogether unlikely that the above was true. Personally he was rather inclined to the view, though he was unable to offer any corroborative statistics, that, between 1870 and 1898, cash copper prices of commodities had indeed fallen, if not exactly by 15 per cent., at any rate in a very appreciable manner.

Thus our evidence, though inadequate and somewhat contradictory as to details, was nevertheless unmistakable about the main fact, namely, that there existed a very pronounced lag of adjustment in respect of prices, etc., in China during the period of the fall in the gold price of silver. Generally speaking, therefore, she had an advantage over India in those years and if only she had the power to turn it to account, it was possible for her to compete with India on exceedingly favourable terms both at home and abroad.

Now, our exports to China consisted only of two articles of importance—opium and cotton yarn. A third, raw cotton, may just deserve mention. In all the three articles there was competition, actual or potential, from indigenous sources. But the exports of raw cotton, which totalled Rs. 1,650,740 in 1868–9, dropped to Rs. 565,706 in 1878–9 and stood at Rs. 266,051 and Rs. 126,880 in the two years immediately before the closure of the mints. It was, therefore, already a lost trade, which, it may be parenthetically added, rather gained than lost its ground in the years just following the closure of the mints, as may be evidenced from the following figures of exports of raw cotton from India to China :

			Rs.				Rs.
1894-5	...	...	68,113	1897-8	...	...	353,860
1895-6	...	...	149,692	1898-9	...	...	609,525
1896-7	...	...	393,842				

So in regard to the China trade the question resolved itself into competition between India and China in opium and yarn.

With regard to opium it must in the first place be noted that it had long lost its character of monopoly in the China market and was already a dwindling trade. On account of growing competition from Persian and native-grown product, our exports to China had fallen from 91,798 chests in 1882–3 to 87,558 chests in 1891–2 and 75,384 chests in 1892–3. For some years after the closure of the mints, the exports began to decline very quickly indeed. For instance, in four years from 1892–3 the fall was nearly as great as it had been during the whole of the previous decade. It appeared as if the opium trade had succumbed and would hardly survive the severe blow dealt to it. In October, 1899, at the time of the submission of the Fowler Report, two members of the Committee in a separate note of dissent reviewed with dismay the decline of the opium trade. They seemed to believe that with the rupee pegged at an artificially higher value divorced from its real worth as silver, the trade must be given up as lost.

The above fear proved unfounded in fact. The dissentient members of the Fowler Committee had based their conclusion on an insufficient appreciation of the facts of the case. The use of Indian opium in China, which, in fact, was more or less a luxury, depended largely on taste rather than on price. On the other hand, China's power to grow superior qualities and to replace Indian opium was much too limited. Consequently, our opium trade was not likely to be so seriously affected by the falling price of silver.

A careful examination of the following figures would bear us out. It would show that the average rupee price realized for our exports of opium did not show the least tendency to decline. On the contrary, notwithstanding the sharp fall of the silver exchange, it kept throughout at a fairly uniform and high level. Obviously, therefore, our opium was finding its market at increasingly higher silver prices. Although towards the margin this had the effect of stimulating to some considerable extent substitution of native-grown for the

Indian variety, as the rapid decline of our exports for some years after 1893 would seem to indicate, yet it was clearly evident that in 1898–9 there was partial recovery and the level which was then reached prevailed, with the usual fluctuations of business in particular years, until 1905, when, of course, the entire aspect of the trade was completely changed by the agreement between Great Britain and China for the gradual reduction of opium exports from India.

	Rate of exchange on Hong-Kong.	Exports to China.	Total Exports.	Average price.
	Rs. per 100 dollars.	1,000 chests.	1,000 chests.	Rs.
1892-3	222	59·7	75·3	1,227
1893-4	205	52·4	70·8	1,132
1894-5	188	51·8	68·8	1,316
1895-6	191	45·6	60·8	1,390
1896-7	181	45·1	62·2	1,288
1897-8	155	41·9	56·0	1,087
1898-9	143	50·2	67·1	1,061
1899-00	146	49·4	67·3	1,218
1900-01	150	49·7	69·7	1,356
1901-02	143	47·1	65·6	1,299
1902-03	—	50·0	67·5	1,187
1903-04	—	55·0	73·6	1,422
1904-05	—	51·9	66·8	1,589

Next, as to our yarn trade to China which was evincing a wonderfully rapid development from 1884 onwards. Within a short space of time, that is to say by 1889, it had actually become so important as to be honoured with a separate enumeration in the Chinese trade statistics.[1] Between the last mentioned date and 1892 it had nearly doubled itself in volume, so phenomenally rapid was the growth. The importance which the China market assumed from the point of view of our yarn trade may be realized from the fact that of the total average yearly exportation of 159·1 million pounds during the five-year period, 1889–90 to 1893–4, 141·7 million pounds went into that country alone. The future of a market, so overwhelmingly important and where our newly-developed cotton industry had only so recently

[1] Sargent, *op. cit.*, p. 259.

established itself, was naturally an object of extreme solicitude at the time of the stoppage of the mints. Especially China was herself a large grower of cotton and she possessed the tradition of a long-established and extensive hand industry. True she lacked capital and enterprise and modern methods of transport. Nevertheless it was a significant fact that the ten years from 1885 had actually witnessed " the real beginnings of economic railway development " in that country and from the Treaty of Shimonoeski (1895) " foreign capital and foreign methods of industrial organization " had " at length obtained that free access to the great centres of population in China which had for years been the object of the most strenuous effort."[1] It therefore seemed extremely probable that every existing obstacle would soon be removed with the rapid development of the country through European influence and with the association of European capital and enterprise. If, in addition, there was a fresh accession to China's competitive strength derived from the stimulative influence of falling exchange, it was *prima facie* a valid ground for fear and anxiety. Did the threatened competition actually translate itself into fact? It is a well-recognized truth which needs no statistical demonstration that for many years after the cessation of free coinage of silver in India, the anticipated competition from China was unable to make itself felt. The country, after the Sino-Japanese War, had, in addition to acute financial difficulties, too many political troubles, domestic as well as foreign. The strong anti-foreign movement which manifested in 1897 in the murder of German missionaries and culminated in the Boxer Rebellion of 1900, was not calculated to create the atmosphere necessary for the successful launching of foreign enterprise.

We now turn to an examination of our exports to Japan. It is true that in 1898 Japan went over to the gold standard, but she adopted it at a ratio with silver which was equivalent to $11\frac{1}{4}$d. per rupee, so that the Japanese currency was still considerably depreciated in relation to the Indian. It was again true that, according to Fisher's index number (average

[1] Sargent, *op. cit.*, pp. 248-9.

of three tables of 42 articles at Tokyo, 16 at Osaka, and 31 articles of export), there was clear evidence that prices in Japan accommodated themselves quickly to the fall in the gold price of silver,[1] and so far the situation was not exactly identical with what was seen in the case of China. On the other hand it must be realized that the course of prices at ports or chief cities can hardly be accepted as representative of price movements inland. In any case we cannot but recall here the finding of the Japanese Investigation Commission of 1896 which, as we said previously, affirmed the existence of the exchange stimulus in regard to Japanese exports. It may, therefore, be generally assumed that at least for some years after 1893 there remained for that country some degree of artificial advantage which placed our competitive exports in a position of relative disadvantage.

Let us now try to see how and to what extent we were actually affected. Our trade with Japan was in those days singularly one-sided. Export of cotton twist and yarn from India was, in fact, the only important line of the Indo-Japanese trade. It is, however, to be noticed that even for some time prior to the stoppage of the Indian mints, our trade with Japan was undergoing a basic change in character. The exports of yarn were constantly dwindling and there were growing up in their place rapidly-increasing exports of raw cotton to feed the newly set-up spinning mills. The following figures bearing on the point will be instructive.

Year.	Raw Cotton. cwts.	Cotton Yarn. lbs.
1887-8	125	17,391,646
1888-9	390	23,143,460
1889-90	60,837	22,686,714
1890-1	77,757	11,876,422
1891-2	400,952	6,682,050

From a study of the above figures the reflection hardly fails to suggest itself that the extinction of the yarn trade was in any case an irresistible consequence. If, therefore,

[1] *Vide Rate of Interest*, p. 426.

exports of yarn speedily declined after 1893 and soon became a thing of the past, it would be absurd to argue that currency conditions were responsible for it. The change of 1893, to say the most, only drove the last nail into the coffin by rendering the trade more or less speculative.

We now advert to the problem of competition as it arose between India and other silver standard countries in neutral markets. Here we should distinguish between two types of competition according as the country or countries where the contest lay were themselves on the silver standard or on the contrary were on a gold basis. The first was essentially, but only in a different phase, the same phenomenon of competition as appeared with silver standard countries in their home markets and it presented exactly the same difficulties for India. In such cases the disadvantages rested wholly with her while the advantages were all on the side of her rivals. But in regard to competition in gold countries, the advantages or disadvantages were more equally divided. India had here the prospect, though it unfortunately did not quickly materialize, of gaining from the establishment of stable exchange relationships. On the other hand, constant fluctuations of exchange, often defying calculations, detracted from whatever advantages the countries on the depreciating standard may have had.

To come now to concrete instances, in the former category we had first the already existing, but hardly important, competition of Persian opium with Indian in China. Secondly, there was the competition, as yet feeble but not unlikely to grow strong, of India and China in the supply of raw cotton to Japan. Lastly, and this caused the gravest concern, there was the potential competition of Japan in the yarn trade of China. It was very much to be feared that her formidable rivalry, as yet confined within her own boundary, would quickly extend itself into China. The contest between India and China regarding the supply of tea in western countries furnished the only instance of competition belonging to the second category. Of course, there was besides the case of the silk trade, in respect of which India used to compete with China and Japan in the European markets.

But from many inherent difficulties of its own exportation of silk from India was by 1893 already a doomed trade. The question, therefore, naturally becomes excluded from the consideration in hand.

Did there result any lasting injury in any of the cases cited above? Let us try to ascertain.

Our previous review of the opium trade dispenses with the need of any further discussion about the trend of competition between Persian and Indian opium in China. For reasons we discussed there our opium trade, it will be recalled, did not after all suffer so severe a setback as was anticipated by many, and on the whole it fully maintained itself after the year 1897–8.

Secondly, in regard to our raw cotton exports to Japan, the consequence was at first the reverse of what was apprehended. After a slight setback in 1893–4, our exports advanced from 444,000 cwts. in 1894–5 and went forward with big bounds to 856,000 cwts. and nearly one and a half million cwts. in 1895–6 and 1896–7 respectively. On the other hand, exports from China to Japan, which for several years prior to 1893 were showing rapid progress, did not only not make any further headway in subsequent years, but after 1895 they actually declined. "In 1895 the export was valued at 11 million taels. During the remaining years of the period (that is, from 1896 to 1898) it declined. The average annual export was about 4 million taels." In later years also, as the following supplementary statistics would clearly show, there was no evidence that China was in any way gaining at the expense of India.

IMPORTS OF COTTON INTO JAPAN.

(Uniform bales of 400 lbs. after deduction of 6% for waste.)

Year.	From China.	From India.
1897	153,916	423,125
1899	78,796	698,504
1901	107,750	541,492
1903	215,532	540,245
1905	215,929	696,822

We now come to the next, and in fact the most important, point in our discussion—the competition of Japan in the yarn trade of China. Japan's cotton industry was already progressing by leaps and bounds; it was quickly elbowing the Indian yarn off the home market. Consequently, it was not beyond the limits of reason to suppose that with the aid of the temporary advantage afforded by exchange conditions, Japanese manufactures would, to the great detriment of the Indian trade, quickly establish and consolidate themselves in the neighbouring market of China. In fact, it was just after the closure of the Indian mints that the Japanese piece-goods and yarns had begun to appear on the Chinese markets.[1] This would appear all the more significant when we remember that even as late as 1892 it was reported that the Japanese mills were not established or worked on a sound business basis, and at the time they were in serious financial difficulties which had been aggravated still further by the effects of earthquakes.[2] There was, therefore, no doubt of an "immediate stimulus," which greatly assisted the Japanese industry to tide over a period of temporary difficulties, and to secure a foothold on the Chinese market. On the other hand, turning to India, we find that there actually occurred a marked fall in exports of Indian yarn to China in 1893–4. Coming as they did on the top of a glut, the shrinkage of the year's exports was to some extent expected; but it was equally undoubted that the exchange was "the most important factor in the decline of the trade."

What happened about the course of the trade in subsequent years? Did 1893–4 indicate the beginning of a lasting change in the direction above indicated? The following figures (see table on opposite page), bearing on the point, will make interesting reading in this connection and will provide an adequate reply to our query.

From the subjoined table it will be observed that the ground which the Indian trade lost in 1893–4 was soon after regained and, except for a break in 1900–01 when the outbreak of plague in Bombay combined with a trade slump all the world over

[1] Sargent, *op. cit.*, p. 203.
[2] *Review of Trade for India*, 1891-2.

to seriously curtail business, exports of yarn to China established a record of steady and satisfactory progress. In fact, there was enough evidence that the prices of Indian yarns in China adjusted themselves with sufficient rapidity to the fall in the gold value of silver, and in most years the Indian exporter was not any the worse than before from the mere fact of the fall in the price of silver. It must, however, be noticed that the expansion of the Indian yarn trade, though striking by itself, was almost cast into shade by the phenomenal, if somewhat less steady, strides of Japanese

YARN EXPORTS TO CHINA (INCLUDING HONG-KONG).

Year.	From Japan. Million lbs.	From India. Million lbs.
1892		176·8
1893	·4	120·8
1894	4·4	145·2
1895	3·3	174·7
1896	15·6	186·1
1897	52·8	189·5
1898	87·0	209·0
1899	127·8	231·6
1900	74·4	108·6
1901	77·8	260·2
1902	73·8	232·4
1903	118·8	232·4
1904	95·2	236·3
1905	96·0	229·1
1906	99·8	282·0

exports. How far it was due to currency conditions, in the absence of necessary data it is difficult to say. The exchange stimulus, as we pointed out before, gave the Japanese trade an easy start and probably operated for some time more to accelerate the progress. In the business world, where nothing succeeds like success, the benefit which thus accrued we do not here ignore or minimize. That the secret of Japan's successful career did not, however, lie especially or even appreciably in any such adventitious aid, the whole history of her subsequent progress abundantly proves.

It remains now to consider the trend of competition which was manifest after 1893 in respect of the trade in tea. There

was, however, a triangular contest here, among India, Ceylon and China. Since in matters of currency policy Ceylon went together with us, the issue really concerned itself against China. The Indian tea-planters were " apprehensive, not only lest China should, in consequence of that interference, regain the ascendancy which has been wrested from her, but even lest the tea industry of India should be entirely and irretrievably ruined."

The above was as misconceived in point of reasoning as it proved unfounded in fact. In the first place, it was by no means an easy task to regain a trade which was already lost. In the world's market the " back " of China's tea business " had already been broken." Secondly, in the United Kingdom, which constituted the biggest market for the article, Indian tea was distinctly preferred on account of its strong infusion and its consumption was to a considerable extent a matter of acquired taste, not easily abandoned. Thirdly, not to speak of " various squeezes " from petty officials, Chinese tea was subject to heavy *likin* taxation from which the financial conditions of the country offered no prospect of early exemption. Fourthly, frequent fluctuations of exchange with Western countries were likely to detract considerably from whatever advantage China might otherwise derive from falling exchange. Fifthly, India possessed the advantage over that country of lower freights to London and of " blood and financial relationship " with the English market. Lastly, and what indeed was most important of all, there weighed on the side of India the supreme strength which emanated from the plantation system with its application of scientific methods, adoption of enforcible standards, and means and opportunities of successful advertisement. On the other hand, tea was grown in China by a large number of small and scattered individual cultivators, who worked everything by hand. It was not possible to introduce the plantation system there easily or quickly. " In general it may be said that the Chinese farmer has a degree of sturdy independence which made it difficult to undertake extensive tea plantation. On the other hand the farmer had neither the ability to read and write nor any sort of organization by

which it was possible to secure, through co-operation, the results of the plantation methods without the plantations."

Thus it was highly improbable that China would ever succeed in recovering an inch of the ground which she had previously yielded to India. That the apprehension was never realized would be evident from the following figures.

IMPORT INTO ENGLAND
(in million lbs.).

Year.	From India.	From China.
1892	111·7	57·0
1893	115·0	56·2
1894	118·4	43·7
1895	123·3	40·1
1896	127·7	35·3
1897	136·2	29·0
1898	139·5	27·0
1906	183·8	13·2
1907	171·4	18·8

The above figures need no comment. The trends in diametrically opposite directions of the course of imports from India and China stand out in striking contrast. Notwithstanding the so-called exchange premium, the Chinese tea increasingly failed to hold its own while, on the other hand, the Indian tea, in spite of the so-called handicap, steadily increased its lead. "The same decline in the importance of Chinese tea was a characteristic of the Australian and American markets."[1] On the contrary, exports of Indian tea to Australia, which totalled a little over five and nearly four million pounds in 1891–2 and 1892–3 respectively, exhibited a slow tendency towards increase and reached more than eight million pounds by the end of the century. To America, exports went up rapidly from the trifling figure of 70,000 lbs. approximately, shipped on an average during the three years prior to the closure of the mints, to nearly three million pounds in 1899–1900.

It is, however, true that the average price of Indian tea

[1] Remer, *The Foreign Trade of China*, p. 143.

underwent a continuous decline from 9 as. 3 p. in 1894–5 to 7 as. 11 p. in 1900–01, and except for slight occasional recovery the downward tendency continued to operate for a few years more. Some indeed had warned that tea being a perennial rather than an annual or a serial crop, the effect of the closure of the mints would in the beginning manifest itself in a prolonged reduction of its price rather than in any actual displacement of the Indian tea in the world's market. The fact that the industry was able soon after to recover from the state of depression and to sustain its future progress would entirely dispose of the above line of argument. In fact, a careful observation would reveal that there was no apparent relation from year to year between the decline in the price of tea and the fluctuations in the price of silver. The depression, in fact, arose entirely from over-supply of the English market consequent on exclusive reliance on it and lack of adequate efforts to find alternative outlets for the constantly increasing output. Further, as prices went down, there was a natural tendency for the growers to pluck as much leaf out of the plant as was possible and the consequent deterioration of quality was in turn an accentuating factor in the fall of prices.

It is thus evident that the closure of the Indian mints did not inflict any permanent injury on any branch of the Indian trade.

IV

THE RATIO OF STABILIZATION AND THE TRADE

Finally we should say a few words here about the effect on Indian trade of the attempt to stabilize exchange at 16d. It is probably needless to emphasize once again that in international trade high or low exchange did not at all matter. It was stability which was the one desideratum in exchange. Once a rate was established and it proved steady, trade would go on just as well on it as on another. But to make the prices and external trade conform to an arbitrary rate

rather than allow them to determine the rate was a different matter altogether.

When Lord Herschell's Committee recommended a 16d. ratio, and the Government of India accepted it, the object really was to prevent a further fall of the rupee, than to raise it. The rate was indeed the exact mean of the exchange movements during the previous two years; but for nearly ten months prior to the suspension of free coinage, the exchange varied little from a rate of 1s. $2\frac{5}{8}$d.[1] So the adoption of 16d. naturally involved a certain amount of raising. The subsequent course of exchange, too, broadly indicated the fact that the rupee was over-valued at that ratio.

The plan of the Government was to attain the ratio by "rarefication of currency," that is, by withholding new issues of currency in response to growing needs of expanding commerce and population. It took a fairly long time to work off the redundancy and bring about a price-level in conformity with the 16d. ratio. Whether it involved any actual contraction of currency or not, it is needless for us to enquire, although a long controversy raged round it at the time with lavish expenditure of ink, breath and temper. It is enough for us to know that there was a contraction relative to trade demands.

The downward pull which was consequently exerted on the price-level would be apparent from the appended table.

TABLE.

Atkinson's Index Number.

Year.	Food. 60 articles.	Raw Products. 29 articles.	Manufactures. 11 articles.	Total. 100 articles.
1893 ...	131	117	113	125
1894 ...	121	118	116	119
1895 ...	113	125	118	116
1896 ...	133	120	111	127
1897 ...	171	114	103	149
1898 ...	131	90	98	122
1899 ...	122	111	102	117

Except during the two years of famine, 1896 and 1897, when prices of food grains soared very high and affected the

[1] *Op. cit.*, p. 40, Sec. 6.

average of all prices, there was a distinct downward slope of the price curve. On the other hand, wages in India during the period, as the following figures would show, did not appreciably decline in most years, so far as the skilled labourers were concerned, and actually increased for unskilled agricultural workers.

TABLE OF INDIAN WAGES[1] (1873 = 100).

Year.	Wages of Skilled Labour.	Wages of Unskilled Agricultural Labour.
Average 1886-90 ...	120	113
" 1891-3 ...	123	114
1894	123	121
1895	122	118
1896	121	116
1897	127	119
1898	121	118
1899	117·4	119

One manifestation of the policy of deflation was an acute and recurring stringency of the money market, already referred to in Chapter III, with all its injurious consequences on trade and industry. It is true that for various reasons comparatively high discount rates constituted a normal feature of the Indian money market. It is also true that such abnormal rates were partly occasioned by exceptional causes, also previously enumerated. But it was unquestionable that the influence of the policy of monetary contraction contributed in no small degree to the tightness of the money market.

The " deadening and benumbing " influence of an appreciating currency on industry and commerce is too well known to need any discussion here. It is also hardly necessary to point out that the above circumstances obviously tended to restrict our competitive power with all countries in general and especially to aggravate in respect of our trade, that was carried on in competition with silver countries, the embarrassment to which it became liable from the mere fact that the silver standard was abandoned in our country. Since, how-

[1] Calculated from *Prices and Wages in India*.

ever, it was previously seen that for one reason or another there did not actually occur any appreciable injury in any branch of our trade, it is altogether needless to labour this point here. Nevertheless, the fact must be recognized that the currency restriction policy of our Government brought for the time being into existence quite a depressing circumstance, though for all that our commerce was fortunately able to make way.

V

ULTIMATE EFFECTS

When the period of transition was over, India came to enjoy the fruits of the currency policy inaugurated in 1893.

It was in the beginning of 1898, soon after the Fowler Committee had been appointed, that the exchange value of the rupee touched 1s. 4d. The Fowler Committee expressed themselves in favour of giving permanence to the *de facto* position of the rupee and looked forward to the concurrent circulation of both gold and silver, as was the case in the French monetary system. Notwithstanding that their recommendations, shaped with the above object in view, were accepted in their entirety by the authorities, yet for one reason or another the circulation of gold never became an accomplished fact. The only legal provision to rate the rupee at 16d. was a statute of 1899 (Act No. XXII of 1899) which declared sovereigns and half-sovereigns legal tender in India at the above ratio. It was doubtless an effective safeguard against the exchange rising above the gold import point, so long as the intrinsic worth of the rupee did not exceed its statutory gold value. But in the absence of any definite statutory obligation on the part of the Government to supply gold in exchange for rupees or to sell gold exchange without restriction, the lower limit of the exchange was naturally without any protection. Fortunately, however, the general prosperity of agriculture engendered by good seasons resulted during all these years in a substantial balance of net exports. There consequently arose no such untoward

circumstance as the occurrence in any year of a large unfavourable balance of payments exerting a strong, downward pull, so that the above-mentioned theoretical defect of our currency system did not lead to any practical difficulty in the sphere of foreign exchange.

Since the early days of 1898 until the outbreak of the World War, and even for some time after, the Indian exchange with gold standard countries remained remarkably stable round about the par. Such fluctuations as occurred were no more, either in range or in frequency, than are usual as between two gold standard countries. It was only during 1907–08 that there was some difficulty for a short period; but the crisis, as we observed, was stopped in time. So, in the words of the official reviewer, " importers and exporters alike ceased during the period to concern themselves about the course of exchange or to insure themselves against its fluctuations." We do not intend to exaggerate the importance of the rôle fulfilled by the stability of exchange in the unprecedented development of trade which synchronized with it, but there is probably no room for difference of opinion that such marked progress as took place during the period was rendered possible only under a system of currency which guaranteed immunity from fluctuations of exchange. Again, with the passing away of a period of monetary uncertainty the stream of British capital, which began to flow freely into India and to diffuse itself through various channels of public and private investments, made possible the great progress in industry and commerce. There was also perceptible a tendency for the rates of interest to become lower, especially during the latter part of this period,[1] as stable exchange facilitated the free movement of the floating funds of the world to and from India. The assistance which was thus offered to commercial finance, especially the relief brought during periods of stringency, became in turn a contributory cause of commercial progress.

There was, however, one dark spot. The silver market was as unsteady as ever. There appeared not the slightest

[1] *Vide* Chamberlain Commission on Indian Currency and Exchange, Vol. III of Appendixes, Cd. 7238, p. 768.

improvement in the sudden and violent character of its fluctuations, while its downward course was simply "unprecedented in swiftness and depth." It necessarily handicapped the development of trade with that part of the world which was yet on silver basis and resulted sometimes in virtual suspension of all business relations with them.[1] Earlier in the chapter it was observed that, at least for some years after the closure of the mints, trade with silver countries fared no worse than trade with gold countries. Even as late as 1901–02 the *Moral and Material Progress Report* of the year could say: ". . . the trade with the silver-using countries has kept up with the general advance in trade. The figures of trade with China bear practically the same proportion in 1901–02 as at the beginning of the decade, in spite of the circumstances which have adversely affected that market in some recent years."[2] Since then the expansion of trade with China did not, however, keep pace with the general progress of trade. There were so many special causes, such as the loss of the opium trade and the frequent political disturbances in China, not to speak of the general backwardness of the country which may have contributed to it, that it is extremely difficult to ascertain the exact share of the responsibility of exchange in causing the decline. In recent years the constantly growing weakness of the silver market has again seriously disturbed our business transactions with silver countries, and even at the time of writing this embarrassing circumstance has not ceased to exist. It is, however, superfluous to repeat that the evil, though it must be deplored, is nevertheless to a large extent unavoidable for India as for the rest of the civilized world with a monetary standard based on gold. In spite of every harassment that our trade may thus suffer, it goes without saying that to-day no reasonable voice will be heard in disparagement of the momentous step which in the domain of our currency was rightly taken in the year 1893. The mature verdict of history has long hushed to silence the furious controversy which rent the Indian world in the days of the closure of the mints.

[1] See Evidence of Frewen before Currency Commission, 1913, Q. 9519.
[2] P. 241.

CHAPTER IX

Currency Changes and Trade Development during the War and its Aftermath

I

A BRIEF HISTORY OF CURRENCY CHANGES DURING THE WAR

We now come to the years of the war. One among the legion difficulties that confronted our commerce during those troublous days centred round the monetary events of the period. The various phases of currency troubles, which were then experienced, do not concern us directly, though, generally speaking, it was true that any and every disturbance of this kind must have eventually reverberated on foreign trade also. We propose to confine ourselves strictly within the limits of the external aspects of the monetary difficulties, which may have in a most direct manner affected the development of our foreign trade.

The first two years of the war passed off without any acute complications in the sphere of Indian currency. The panic which ran through the country immediately on the outbreak of the war, manifesting itself in large withdrawals of deposits from Post Offices and Savings Banks, in eager redemptions of currency notes and in a regular scramble for gold, did not last long. Without any resort to moratorium or suspension of cash payments, as had been necessary in the case of most European countries, it was quickly allayed by the promptitude with which the demand for the encashment of notes was met. The exchange, which showed a disquieting symptom of weakness consequent on general dislocation of trade and business, was without much difficulty steadied by the proved expedient of the sale of Reverse Councils. Though

issue of gold to the public was suspended from 5th August, 1914, yet the assurance to the banking and commercial community that adequate and continuous facilities for remittance would be provided whenever the occasion might arise, served fully to restore confidence. Thus the pre-war currency system, generally designated the gold exchange standard, which was only gradually and tentatively evolved and the basic principles of which were generally endorsed by the Chamberlain Commission of 1913, stood the first shock of the war quite well.

Difficulties began to arise towards the end of 1916. Eventually they proved insurmountable and the consequence was that our currency system completely broke down. Firstly, as the result of growing demand for Indian exports on the part of European countries while their own available supply for India's needs was seriously curtailed, there resulted a large balance of trade in favour of India. Secondly, the arrest of the normal flow of homeward remittances of funds from English firms in India, partly on account of the scare of the high British income tax and partly for such considerations as the difficulty that might subsequently arise in case it were necessary to bring back funds from England, reduced a very important item on the debit side of India's balance of accounts. Thirdly, an almost total cessation of gold imports, owing to the refusal of the gold standard countries to part with their supplies and a considerable fall-off in the private importation of silver on account of a rise in its price, rendered the liquidation of the favourable balance of indebtedness still more difficult. The Secretary of State for India was consequently faced with an intense demand for Council bills as means of remittances for settling the balance. A free sale of Councils naturally involved a severe strain on the Government of India in regard to provision of local currency. The strain was still further intensified by other factors. For instance, the return of the currency from the interior was considerably impeded by the preponderance of exports over imports, so that it was all the more necessary to provide additional currency in order to supply the deficiencies in the trade centres. The chief accentuating

factor consisted, however, in the fact that the Government of India had to make large and exceptional disbursements on behalf of the Imperial Government in connection with military and such other expenses in Eastern theatres of war, for which it was only reimbursed by the substitution of paper credits abroad. Similar arrangements were also made for the financing of purchases in India on behalf of certain Dominions and Colonies and there were also provided in 1917–8 and 1918–9 rupee credits for American importers of Indian produce.

It was found increasingly difficult to cope with this enormously increased demand for monetary circulation. Notwithstanding heavy coinage of silver, bought at prices soaring higher and higher, and large expansion of currency notes with a metallic reserve falling dangerously low, the breaking point seemed more and more imminent. At last, towards the end of 1916, the Secretary of State had to restrict his sales of Council drafts. At once the market rate of exchange broke off from the official rate on account of competition among unsatisfied remitters. " A rate of 1s. 5d. was quoted," and " at one time transactions were reported to have been put through as high a rate as 1s. 6d."[1] Nobody knew how high the exchange would mount and there stared in the face of the mercantile world a rate of exchange fluctuating considerably from day to day. Trade for a time was actually impeded,[2] but the Government promptly intervened and initiated the " consortium principle of exchange control,"[3] in order to facilitate exports of war importance.

" Briefly stated, this control assumed the following form. Firms or Banks entitled to buy rupees from the Secretary of State were required to work at certain fixed rates (based on that of 1s. 4¼d. for immediate telegraphic transfers) at which exchange should be bought or sold. The Exchange Banks undertook to give preferential treatment to the finance of

[1] Gubbay, *Indian Currency Committee*, 1920, Vol II, Cmd 529, App I, p 4

[2] Abrahams, *Evidence, Indian Currency Com* , 1920, Vol II, Q. 56

[3] The phrase is borrowed from W A Shaw's *Currency, Credit and the Exchanges*, where the writer used this to explain the similar control device adopted by some Continental countries as contrasted with the Foreign Credit operation pattern of the British-American control scheme

exports of war importance in order that the supply of these to the United Kingdom and the Allies should not be prejudiced by the failure to provide finance, a schedule of such articles being drawn up for their guidance. As a further inducement to the British Exchange Banks to co-operate in the financing of articles so scheduled, they received a guarantee from the Secretary of State covering risks of exchange. At the same time an appeal was made to merchants to effect solely through the Exchange Banks their purchases of sterling in order to ensure that the object of keeping exchange stable should not be defeated by outside transactions between importer and exporter and that financing of war exports just referred to should have the first call upon all the funds sent home by remitters."[1]

The crux of the situation arose in August, 1917. The price of silver, under the joint influence of restricted output on account of revolutionary outbreaks in Mexico and of a very keen world demand for coinage for which India herself was responsible in no small degree, reached a point at which the rupee just touched the melting-point at its then exchange value. It showed a tendency to ascend even higher. Exercise of control over the destinations and prices of silver by the U.S.A. and Canada produced some steadying effect on the price of the white metal. Private importation of silver into India was totally prohibited in order to eliminate a very large demand for non-monetary use of silver and thus to ease the market. Nevertheless, the price of silver remained well above the rupee melting-point during the concluding years of the war. Melting of coins and exportation of silver on private account were, of course, altogether forbidden by law. Still, it would have been obviously impossible to maintain the *status quo* as to the exchange value of the rupee, except on pain of heavy loss to the Exchequer and at the probable risk of seeing a large part of the circulation covertly melted and clandestinely exported. So, in accordance with the movements of the market price of silver, the control rate of exchange, at which the Secretary of State disposed of his limited supply of Councils and at which the Exchange Banks

[1] Gubbay, *op. cit.*, p. 4.

were expected to do business, was raised to 1s. 5d. in August, 1917, and to 1s. 6d. in April, 1918.

On the other hand, in spite of every attempt on the part of the Government to economize, conserve and increase the means of payment by the adoption of such measures as compulsory acquisition of all privately imported gold, coinage and issue of sovereigns for circulation, legal prohibition of all melting and exportation of coins and issue of uncovered currency notes in quantities and denominations hitherto unknown, the great monetary hunger proved insatiable. This led eventually to a continuous inflation of note issue, being the only convenient mode left open to the Government at a time when gold was not easy to procure and the coinage of silver an unprofitable business.

The critical stage was reached early in 1918, when it was apparent that the supply of currency in the country was not enough "to enable articles of importance for the prosecution of the war to be exported to the extent necessary for meeting urgent requirements."[1] Yet at the same time the country stood on the brink of inconvertibility as the consequence of the inflationary policy.[2] Great was the panic for a time but before the mischief was done the U.S.A. had come to the rescue. The timely arrival of silver from America, purchased under the Pittman Act, enabled the Government to tide over what might otherwise have been a serious currency crisis. The currency situation during the war and immediately after was best summed up by Gubbay when he said that, "by dint of various artificial aids, such as the withdrawal of extra-legal facilities for local encashment of currency notes, the prohibition of the export and the import of coin and bullion and of the booking of coin by rail and steamer, and (as soon as victory in the war was assured) by

[1] Memorandum A of Sir L. Abrahams before the Babington Smith Com., Vol. II, p. 6.

[2] The notes actually went to heavy discounts at various times and in various places during the war See *Evidence of Sir Lionel Abrahams before the Babington Smith Committee*, Vol. II, Q. 1016. "The highest rate of discount on currency notes reported to the Government of India in 1918 was 19% in the Central Provinces, 15% in Bengal and 12½% in Burma. During 1919 the highest reported rate has been 3½%." Notes by Sir Lionel Abrahams to Q 5375, Babington Smith Com., Vol. II.

successive turns of the screw in the matter of forcing the use of paper currency, the Government of India just managed to carry on, frequently in a hand-to-mouth sort of way, through the periods of pressure, on the one hand without an actual breakdown or repudiation of their promise to encash their notes at the seven offices of issue, and on the other hand without actually having to unpeg exchange and allow it to find its natural level."

II

EFFECT ON TRADE EXAMINED

From the historical review given above, it must be apparent to everyone that although the currency system had not functioned in a perfectly smooth manner during the period of the war, yet, by means of various artificial props adopted, it was somehow kept in a fairly working order. It was seriously complained by some witnesses before the Babington Smith Committee that the effects upon the external trade of the special measures rendered necessary by the war were harmful. Restriction of free flow of precious metals, limitation of sales of Councils and the policy of approved banks and firms and of preferential finance to war exports made export finance extremely difficult to secure and thus eventually hampered exports from India in an appreciable manner.

It is true that at first, when the Secretary of State restricted his sale of Councils, trade, as we mentioned earlier in the chapter, was for a time retarded for reasons of difficulties of finance; but the inauguration of the whole system of control was exactly to obviate such obstacles to trade. There exists strong evidence to show that the restricted system worked quite well throughout the war period. There was, indeed, no case of failure to export goods of national importance on the ground of mere absence of finance, though it must be admitted that there were sometimes cases of delay.[1] The non-essential exports, however, it seems, were at times

[1] See *Evidence of Gubbay before Babington Smith Com.*, Vol. II, Q's. 225-7.

seriously impeded owing to difficulties of finance. One striking instance was of ground-nut exports. During the war they were largely retained at home for the ground-nut producers could not obtain finance to send their produce to Marseilles.[1] Similar difficulties were experienced in the beginning in the case of tea until it was included in the category of war necessities as the consequence of the pressure which was put upon the Government by the planters.[2] Then for the same reason exportation of raw cotton, which to all intents and purposes was never deemed an article of war necessity, was rendered extremely inconvenient throughout the duration of the war.[3] On the other hand it must not be forgotten that the urgent requirements of the war included the majority of the staples of Indian trade so that any injury that may have occurred was confined within comparatively narrow limits. Even in regard to cotton, the fact was incontrovertible that in spite of all difficulties the entire crop was always successfully financed.[4] This should at least serve as a warning against any undue exaggeration on the point.

The truth really was that the chief impediment in the case of non-essential exports lay rather in scarcity of tonnage than in lack of finance. Where shipping space was available, exports, generally speaking, were not held up for financial difficulties. One way or another it was possible to arrange for the finance and see them exported.[5] It is therefore justifiable to conclude that though our export trade was, in regard to some commodities, somewhat affected by a certain inadequacy of finance, brought about by the special restrictive measures referred to in the beginning, yet in the end the sum total of effects was far from serious. On the contrary there cannot be any denying the fact that the special control, in so far as it exercised a great steadying effect on the foreign exchange, constituted an aid rather than a hindrance to commerce.

[1] Abrahams, *B. S. Com. Evidence*, Vol. Q. 58.

[2] *Memorandum by J. N. Stuart, representing the Indian Tea Association to B. S. Com.*, Vol. II, pp. 138-9.

[3] See *Effect of the War on Commerce and Industry of Japan*, by Yamasaki and Ogawa, pp. 19-20.

[4] Gubbay, *Evidence before Babington Smith Com.*, Vol. II, Q's. 222-3.

[5] *Ibid.*, Q's 287 and 218-24.

Next, as regards the alleged prejudicial effect of raising the exchange value of the rupee by successive steps, we may at once remark that to ascertain the definite, indisputable truth on the point almost touches the bounds of the impossible. In a period, so abnormal in every respect, especially when normal economic action was held in check in almost every country by the strong hand of the state, it is well-nigh impossible to trace any effect clearly to the operation of the particular factor in question. The inductive method entirely fails us here. If we, however, rely on deductions from general principles, they may be nothing more than mere guesses. Yet this is the only course left open to us.

Theoretically, as we know, every rise in exchange stimulates imports and discourages exports during a temporary period of non-adjustment and thus eventually may severely hit some or all domestic industries. Presumably, any such tendency that might operate in normal circumstances must have been rendered nugatory by the restricted supply of available imports from the principal exporting countries on the one hand and by the imperious world demand for our exports on the other. Again, a rising exchange need have caused no fear to our industries. They had sufficient protection in the home market not merely because the chief manufacturing countries were preoccupied with the war, but also on account of abnormally high freights which prevented deliveries from most countries with any adequate margin of profit. This, of course, was not true of Japan which was in an exceptionally favourable position in many ways. The import of cotton yarns and of piece-goods from that country increased in a noticeable manner during the period. On this point we need not dilate here, for we shall have to revert to it in a subsequent chapter. Suffice it here to say that it was not till some time after the termination of the war that the competition from Japan assumed the form of a menace. So far as the actual war years were concerned, our staple industries, no one would contradict, enjoyed a spell of prosperity that was not fettered, at any rate, by foreign competition. In fact, so propitious was the time for all industries in general that the rate of

exchange hardly entered into the question at all. Many mushroom concerns which should have never seen the light of day came quickly into being in those exceptionally favourable circumstances and actually throve so long as the war lasted. Apart, therefore, from a certain sense of insecurity which must have preceded the raising of the exchange rate and the transient unsettlement of business which followed it, the rise in exchange does not seem to have had any prejudicial effect on the trade and industrial interests of the country.

It is thus plain that, of the several causes which impeded the development of the Indian foreign trade during the war, it can in no way be affirmed that currency and exchange difficulties occupied any important place.

III

CURRENCY CONDITIONS AFTER THE TERMINATION OF THE WAR AND THEIR UNSETTLING EFFECT ON TRADE

Unfortunately, it was after the war had ended that India was fated to have her real plight. Compared with the quick fluctuations during the years immediately after the end of the war, the variations of exchange between 1916 and 1919 appeared only insignificant. On the withdrawal by the United States Government in May, 1919, of the control over silver, previously initiated as a war measure, the price of the white metal began to ascend sharply to unprecedented heights. Partly for the above reason and partly for the depreciation of the sterling following upon the unpegging of the dollar-sterling exchange, the Indian Government had to screw up its official rate of exchange on London at first to 1s. 8d. on 13th May, 1919, and then by successive changes to 2s. 4d. on 12th December following. Thus the deplorable conditions of trade, existing before the closure of the mints, reappeared in a still more accentuated form. The exchange banks, unable to maintain the even keel,[1] refused to enter

[1] With the termination of the war, the Secretary of State's overbuying guarantee to the Exchange Banks was, as a matter of course, withdrawn.

into forward contracts. Remittances from India were held back as far as possible and the consequence was an extreme scarcity of export finance.[1] Premiums for cover went as high as 15 per cent., and yet little was obtainable even for that high price.[2] Export business was reported to have been greatly restricted.[3] In the words of the Bengal Chamber of Commerce, "The sudden and unexpected increases in the exchange rates have caused severe losses and dislocation of business to exporting firms, and had it not been that circumstances have been altogether abnormal and that the rises in exchange have occurred when foreign markets were rising and India's produce was badly needed, the effect of the rises would have been far more important and permanent than they have been."[4] Gradually the import trade was also affected, since the "effect of premiums" was to cause "postponement of business in anticipation of higher rate."[5] Every such harmful consequence was again still further aggravated by "any talk of a further rise, and by the uncertainty attending the intention of the Government with regard to the future."[6]

At the above point the Babington Smith Committee was appointed. It recommended stabilization of the rupee at 2s. gold, and the Government of India accepted the recommendation. Any contemplation to stabilize the Indian exchange at that stage was, however, altogether premature. For exchange stabilization is, after all, an international and not a national problem. At a time when the equilibrium of the whole world was disturbed, stability of Indian exchange was a vain quest. The attempt was therefore foredoomed to failure. Secondly, the rate of 2s. gold, the recommendation of which was largely dictated by the apprehended need of

[1] Memorandum by the Financial Department, India Office, *Babington Smith Committee Report*, Vol. III, App. XVII, p. 100.

[2] Telegram from the Government of India to the Secretary of State, dated 26th August, 1919, communicating the substance of a message from Bengal Chamber of Commerce.

[3] *Ibid.*

[4] *B.S. Com. Report*, Vol. III, App. XII, p. 68.

[5] Telegram from the Government of India to the Secretary of State, September 4th, 1919.

[6] *Vide* Memorandum by Mr. Manu Subedar, *Indian Currency Committee*, 1920, *Appendices to the Report*, p. 107.

safeguarding the rupee circulation against any probable future rise of the price of silver, considerably over-valued the rupee in comparison with its purchasing power parity with gold, which at the time was 1s. $4\frac{15}{16}$d. only.[1] The effective stabilization of the exchange at that high ratio could have been successful only in proportion as it was found possible to deflate the currency with incalculable mischief to trade and industry.

Let us now pursue the Indian Government in its fruitless endeavours to force up the exchange and stabilize it at 2s. gold. It was through the process of the sale of Reverse Councils that the Government began to rig the market. To attain the end was by itself no easy task. As it happened, however, there synchronized at about the time a world-wide policy of deflation, the course of which we described in Chapter VI. It actually proved impossible to apply the screw in India to the extent it was necessary to attain the 2s. rate, partly because the Government was faced with budgetary deficits and the necessity of renewing a large amount of outstanding treasury bills, and partly because "the limit of deflation was set by the anticipated reaction of an increased stringency on business." Further, in so far as the currency withdrawn from the market by means of sale of Reverse Councils was dealt through treasury balances, it assisted to improve the cash balances of the Presidency Banks, encouraged the expansion of credit and thus tended partly to defeat the object which the Government had in view.

The authorities soon realized the futility of holding on to the rate of 2s. gold, tried for some time to keep the ratio at 2s. sterling, and when that, too, proved impossible of attainment, they abandoned all further efforts and left the rupee to adapt itself to market conditions and to react to the violent fluctuations of prices in the outside world. The extreme uncertainties, to which Indian commerce was meanwhile subject, can be realized when it is remembered that, from the rate of 2s. 4d. sterling prevailing in January, 1920, the rupee exchange was propped up to 2s. $11\frac{1}{2}$d. in the middle

[1] *Vide Royal Com. on Indian Currency and Finance*, 1926, p. 120.

of the following month and thereafter it began quickly to descend till it fell as low as 1s. 10d. in September, when the Government withdrew from the exchange market. It was again a grave error of judgment on the part of the Government that, in spite of and, indeed, even after its acknowledged failure to maintain the exchange at 2s. gold, it chose to pass the necessary legislation adopting that rate as the statutory ratio. It could have served no other purpose than making public minds, already confused in the extreme, worse confounded.

So many unusual circumstances were simultaneously at work, that it would be impossible to apportion the real share of the exchange troubles for the untoward consequences from which our trade suffered at the time. There was, however, no gainsaying the fact that the wild fluctuations of exchange which were then experienced largely added to the general difficulties of the period. We need simply recall the crisis which faced the cotton import trade towards the end of 1920 and to wholesale repudiation of orders, in order properly to comprehend the harassing effects of exchange fluctuations on trade. It is true, as world circumstances then were, violent fluctuations of Indian exchange could in no case have been avoided. At the same time, however, it must be borne in mind that, "whatever the evils and inconveniences of instability may be, they are increased, if the movements of exchange are brought about not by the automatic action of economic causes, but by administrative acts."

IV

THE SITUATION AFTER THE CURRENCY EXPERIMENT OF 1920

The course of events, subsequent to the abandonment of the ill-fated attempt towards exchange stabilization, afforded a close analogy to what had happened in respect of currency in India between 1893 and 1898. Although the Government had to give up any active support of the exchange by means of offer of Reverse Councils, yet it did not cease to

adopt such indirect measures as would resist the downward trend of the exchange and assist its gradual recovery. Not only was the normal expansion of currency altogether stopped except on occasions when the stringency in the money market tended to reach the breaking point, but there was actually effected a large reduction in the medium of circulation.[1] As one writer described it, "it was a constant pumping out of currency from circulation in order to raise exchange and the occasional pumping in of a few fresh crores when the situation would otherwise become too dangerous." For some time the downward course of the exchange was not resisted. With the rapid fall of world prices, the depression of the Indian price level failed to keep pace. The downward movement of the rupee exchange did not stop at 1s. 10d., to which, as we said in a previous paragraph, it had dipped in September, 1920. Early in 1921 it stood below the level of 1s. 3d. sterling and 1s. gold. At last, however, the rigorous policy of contraction, aided subsequently by the arrest of the drooping tendency of world prices, was able to shove up the exchange to 1s. 6d. sterling (equivalent at the time to 1s. 4d. gold) in October, 1924. The subsequent appreciation of the sterling and the restoration of its parity with gold about the middle of 1925 made 1s. 6d. sterling identical with 1s. 6d. gold. The actual course of the rupee exchange during the period was in terms of gold 1s. 1d. and 1s. 2d. in 1922, and 1s. 3d. and some fractions thereof during 1923 and the greater part of 1924, when it ascended steeply to 1s. 4d. and a farthing in October, to 1s. $5\frac{3}{16}$d. in December and to 1s. $6\frac{1}{16}$d. in July, 1925.

The deflationist policy noted above and the upward trend of the rupee exchange, which naturally accompanied it, reacted on our trade and industry in the same manner and introduced the same complications as during the closing years of the nineteenth-century. That the adjustment of wages and other expenses of production was not complete till at least the middle of 1925, it is not necessary to have recourse to statistics to establish. It was quite an obvious fact on

[1] *Vide Royal Commission on Indian Currency and Finance*, 1926, Vol. II, App. III, p. 26, for corroborative figures.

which a perfect consensus of accredited opinion prevailed. There is, therefore, simply no question as to the adverse influence which the currency factor exercised on our commerce and industry.

The difficulties now were, in fact, many times more acute and embarrassing than were experienced during the closing years of the nineteenth-century. In the first place the depressing influence came on the top of a severe slump which had already set in. Secondly, many of the nascent industries which came into existence during the peculiarly favourable conditions of the war, were yet struggling hard to secure a foothold. To not a few of them the harassing effect of the currency situation was almost the last straw, although it is due to a complete and impartial statement of the whole case to add that some at least of the recently established concerns were built on so shaky foundations that they were bound to go to the wall under any circumstances. In the third place, nearly every major industry of the country, steel, coal and cotton, was menaced with severe competition in almost every market and thus could ill afford to bear the special tax which a policy of deflation levied on business in general.

Lastly, the whole situation was further complicated by the simultaneous rapid depreciation of the currencies of such countries as Japan, Belgium and Italy, who keenly competed with India in certain lines of trade. It is well known that the dumping of goods from the countries on the depreciating standard was at the time a source of great embarrassment to the rest of the world. Every country was put on its mettle to guard against this form of unfair competition. Even Free Trade England had to go back upon its traditional policy and adopt measures with a view to protecting its own industries against competition, arising from any depreciation of currency in foreign countries. In our own fiscal law, however, there existed no earlier provision to penalize unfair competition, except when such unfairness was attributable to direct payment of bounties, nor was any legislation subsequently undertaken to safeguard our industries against exchange dumping from foreign countries. Thus, in the absence of any general measure to prohibit or

restrict the entry of goods into India from countries on a steadily depreciating basis, our industry and commerce remained exposed to the full blast of competition stimulated by the constant depreciation of the currencies of those climes.

V

HOW FAR TRADE WAS AFFECTED BY UNFAVOURABLE CONDITIONS OF CURRENCY AND EXCHANGE

(*a*) *Analysis of Trade Statistics in General.*

Let us now proceed to determine how far the unfavourable influences described above were able to predominate and to leave their impress upon the trade returns of the country. On a general view it will at once appear that the changes in the course of the import and the export trade were during the years rather contrary to what we may have been led to expect. We deem it unnecessary to reproduce here once again the relevant trade statistics in substantiation of our statements. If the reader will refer to the tables on pages 115 and 126 (top), which, taken together, will show the changes in the value of our total imports and exports, he can see that, notwithstanding a rise of nearly 20 per cent. in the exchange value of the rupee, our exports, instead of diminishing, actually went up in most years and were 55 per cent. higher in 1925–6 as compared with the year 1920–1, while on the other hand the import trade did not only not increase, but on the contrary was almost constantly on the down grade, standing in 1925–6 nearly 33 per cent. lower than in 1920–1 and 17 per cent. below the average of the last-named year and the one preceding it.

Similarly, on reference to the two tables on pages 116 and 126 (bottom), it may be seen that what was true in regard to changes in value held good with substantial accuracy as far as the broad general movement of the trade in its quantitative aspect was concerned. While the import trade was unable to maintain the 1920–1 level in subsequent years, showing a

clear absence of vitality up till 1923–4 and exhibiting since then no more than normal advance, the volume of the export trade on the contrary was rapidly expanding from year to year and suffered only a slight setback in 1925–6. Obviously, then, the effect of currency and exchange disturbances, whatever it may have been in particular instances, was completely obliterated over trade as a whole. The explanation was obvious. For various world causes the demand for Indian raw materials and foodstuffs tended to rise during the period from 1921 to 1924; consequently, our staple exports did not feel the strain of rising exchange. On the other hand the prices of our imports, consisting almost entirely of manufactured commodities, though they generally tended to fall partly under the influence of rising exchange, were nevertheless still too high to encourage unstinted consumption of such goods among our masses.

(*b*) *A More Minute Examination of Trade Statistics.*

Let us now enter into a more minute examination of the trade statistics. The adjoining table shows the indexes of the growth of our staple exports in value and in weight during the period 1920–1 to 1925–6, with the former year taken as the base. Only a comprehensive investigation into the respective conditions of demand and supply can adequately explain the why and wherefore of fluctuations, which occurred from year to year in respect of every single item shown in the table on page 224. For obvious reasons such detailed analysis cannot be attempted here. It may be generally noticed that the expansion of the raw cotton trade was quite remarkable in volume and even more so in value. The increase in raw jute exports, in respect both of weight and of value, if not quite so marked as that of raw cotton, was nevertheless large and, except for alternation of trade currents characteristic of the trade, unhindered. In reference to jute manufactures, it is to be remembered that the shipment in 1920–1, stimulated by abnormally heavy demand for nitrate bags to South America and for wheat bags to Australia, was exceptionally large, being nearly 28 per cent. higher than the preceding and 39 per cent. in excess of the

Year.	Cotton, raw.		Cotton piece-goods.		Cotton twist and yarn.		Jute, raw.		Jute manufactures (bags and cloths).	Jute manufactures, total.	Rice (unhusked).		Total, grains and pulse.		Seeds.		Tea.		Raw hides and skins.	
	Q.	V.	Q	V.	Q.	V.	Q.	V,	Q	V.	Q.	V.	Q.	V.	Q.	V.	Q.	V.	Q.	V.
1920-1	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1921-2	144	130	111	100·4	98	75	99	86	77	57	129	137	111	117	118	103	109	150	155	115
1922-3	162	170	108	94	69	54	122	138	81	76	197	194	175	166	188	162	101	182	148	109
1923-4	181	236	114	88	47	35·9	141	123	89	80	205	193	230	199	201	177	118	261	158	133
1924-5	160	219	131	92	44	36	148	178	98	97	214	206	286	254	213	197	119	276	155	130
1925-6	201	228	114	83	38	28	138	233	98·4	111	240	221	206	188	200	176	114	224	164	139

pre-war year's figure. The acceptance of the year as the basis for comparison is therefore calculated to give a false view of the subsequent course of the trade. If we leave apart 1920–1 as an abnormal year, we can at once see the steady growth which characterized the whole course of the trade, and it is further to be observed that over a number of years the increase in the value of exports kept fairly even pace with the increase in their quantity. Again, in weight and in value, exportation of rice, of all grains and pulse taken together, and of seeds exhibited a marked upward trend throughout the period, although the growth of value in such cases was slightly less than in proportion to the increase in weight. The same was more or less true in regard to the trade in raw hides and skins. Thus every branch of our export trade gives a clear impression of progress and bears no ostensible marks of the imposition of a handicap from exchange, the only conspicuous exception being provided by cotton manufactures, especially twists and yarns.

We propose to examine presently the particular case of the cotton trade; but the above survey evidently teaches us once again the lesson, which unfortunately is so often forgotten, that, after all, exchange is only one and by no means an all-important factor from the point of view of the trade of a country. The truth of this statement receives further and striking confirmation from the fact that it was during 1924–5 that the rise of the exchange was especially marked and yet it is scarcely possible to trace its effect on our export trade, almost every staple showing a marked improvement on the previous year's record in respect both of value and of weight.

VI

HOW FAR TRADE WAS AFFECTED BY UNFAVOURABLE CONDITIONS OF CURRENCY AND EXCHANGE—(*contd.*)

(*c*) *Analysis of Trade in Cotton Manufactures.*

The question we have now to discuss is about the decline of our cotton export trade. This, however, is best treated

as a part of the general theme, namely, how far the peculiar monetary circumstances of the period stimulated competitive imports from foreign countries and contributed to the serious difficulties with which many of our industries were confronted. It is obviously not possible to extend our enquiry into the case of every industry, great or small. We intend, therefore, to examine in the following paragraphs three most important industries only, cotton, coal and steel, all of which were at the time passing through a period of acute depression. The first of them was, of course, by far the most important, with an extensive command over markets at home and abroad. The second possessed an equally large internal market and could boast of an export trade which, if not as important as the cotton trade, was nevertheless not negligible. The last-named, though a comparatively new and small industry with its operations strictly confined within the boundary of the country, deserves, however, an equal degree of attention with the rest on account of its great national importance and its promise.

We first of all take up the cotton trade. It is to be noticed that piece-goods exports from India did not, so far as the quantity was concerned, show any tendency to decline (see table on page 224). The loss of the yarn trade, however, was strikingly rapid and it undoubtedly constituted an important contributory cause of depression of the Indian, especially of the Bombay, cotton industry. How far was this ascribable to circumstances connected with the monetary situation? A closer and more minute examination of trade statistics is needed to get at the real truth.

The table on the following page shows the exports of yarns from India to all the important countries of their destination. Only a brief glance at the table is enough to show that the marked and progressive diminution of our yarn export trade was entirely on account of the rapid fall in our sendings to China. So far as other markets were concerned, there was not only no decline of our exports to them but on the contrary there was a slight increase. The above would naturally suggest that the decay of the trade was due to some cause peculiar to the conditions of China, rather than to the

operation of the depressing influence exerted by the appreciating rupee.

If, indeed, we examine the course of the trade with China in its retrospect, we observe that our exports to that market were long, in fact ever since 1906, showing a marked indication towards decline. Our shipments fell from 282

TABLE

(In thousands of lbs.).

Countries.	1920-21.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.
China	63,426	61,984	41,060	20,734	14,495	9,679
Egypt	3,401	4,698	3,665	4,593	6,667	5,095
Straits Settlements[1] ...	3,785	2,698	1,679	1,416	831	1,087
Persia	2,689	3,249	2,177	2,315	3,228	3,617
Siam	789	1,757	1,186	1,199	1,429	1,679
Total (all countries) ...	82,535	81,033	56,861	38,531	36,532	31,874

million pounds in 1906, the highest point they ever reached, to 223·4 million pounds in the following year, to 158·8 and 129·3 million pounds in 1911 and 1912 respectively and only partially recovered to 183·3 million pounds in 1913, which, it must not be forgotten, was a very prosperous year. The shrinking tendency of the trade was therefore no new feature of the period in question but was evidently attributable to some influence which was in operation for many years past. The cause was, of course, no other than the rapid growth of the manufacturing industry within China itself,[2] which, with the advantages of locally-grown cotton, less expensive labour and proximity to the market, limited imports not merely from India but, be it remembered, from Japan as

[1] Largely an entrepôt trade for China and other Far Eastern markets.

[2] The growth of the industry in China can be gauged from the following figures :—

Year.	No. of Spindles (in thousands).
1900	550,000
1911	831,000
1913	947,406
1916	1,029,218
1924	3,300,000

well.[1] We discussed in the previous chapter the strong anti-foreign movement which retarded the industrial development of China during the closing years of the nineteenth century. The Boxer Uprising of 1900 proved, however, to be " the last effort of the Chinese people and their rulers to maintain a policy of exclusion and to sweep from the Chinese Empire everything associated with the foreigner."[2] At long last China really awakened from her lethargy and began to bestir herself and there since set in a wave of progress which naturally gathered considerable force after the Russo-Japanese War.[3] Thus, once she was able to organize her cotton industry on its modern basis, it was possible for her to offer increasing resistance to similar goods imported from abroad.

We believe we have clearly shown in the above paragraph that the loss of our yarn trade was almost entirely to be accounted for on grounds other than monetary. We now turn to an examination of the figures of cotton imports into India. Table A and Table B (see next page) respectively display the total weight of piece-goods and of yarns imported between 1919–20 and 1925–6, together with the respective shares derived from the important countries of provenance.

The year 1920–1 was an exceptional year in the history of the cotton import trade when, as we mentioned once before, the fixation of the rupee at 2s. gold led to a great rush of import business and eventually, when the exchange fell, to wholesale repudiation of orders previously placed. It is therefore necessary to turn to 1919–20 as the basis for subsequent comparison, and since even that year was not

[1] The decline in the imports of yarns from Japan to China (including Hong Kong) was as follows :—

Year.	Million lbs.	Year.	Million lbs.
1903	118·8	1920	90·0
1906	99·8	1921	92·3
1907	79·5	1922	118·5
1911 . ..	98·9	1923	64·7
1913	69·3	1924	63·2
1919	76·8		

[2] Remer, *op. cit.*, p. 105

[3] Su See, *The Foreign Trade of China*, p. 221.

TABLE A.

PIECE-GOODS.

(In million yards).

Countries.	1919-20.	1920-21.	Average 1919-20 and 1920-21.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.
United Kingdom	976	1,292	1,134	955	1,453	1,319	1,613	1,286
Japan	76	170	123	90	108	123	155	217
Italy	1	10	5·5	2·3	2	6	10·2	10·8
U.S.A.	9	13	11	23	8	7	9	15
Total (all countries) ...	1,080	1,510	1,295	1,090	1,593	1,485	1,823	1,563

TABLE B.

TWISTS AND YARNS.

(In million lbs.).

Countries.	1919-20.	1920-21.	Average 1919-20 and 1920-21.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.
United Kingdom	12	23	17·5	40	31	21	20	16
Japan	2	20	11	15	26	20	32	33
Total (all countries) ...	15	47	31	57	59	44	56	52

quite normal for the trade on account of the rise of cotton prices in America, it may be preferable for a more correct representation to take the average for the two years 1919–20 and 1920–1 as a rough and ready approximation to a fairly satisfactory base. Now, after a careful inspection of the above tables, it is certainly difficult to arrive at the conclusion that the appreciation of the rupee exchange provided any *regular* impetus to the importation of cotton goods from foreign countries. Imports either of twists or of yarns showed no steady increase from Great Britain; there were crests and troughs. The same was true of shipments from the U.S.A. On the whole the total importation of cotton goods did not seem to have made any special headway.

It cannot, however, escape our notice that the inflow of Japanese yarns and piece-goods, however small their proportion from the standpoint of the total trade of the country, was all these years showing an alarming rate of increase. Italy, too, it seemed, steadily expanded her Indian piece-goods trade during the period and she came in for some share of complaint which was placed before the Tariff Board by the Indian mill-owners, although, as was only to be expected, the gravamen of the charge of increasing competition was directed against Japan. It is significant that the above-named were exactly the countries which were, for the time being, on a depreciating standard and consequently in possession of an artificial advantage quite apart from and independently of the appreciation of the rupee currency. In such cases it may reasonably be suspected that the heavy depreciation of the yen and the lira may have especially accelerated the growth of imports from those countries. Let us examine if we can discover any correlation between the depreciation of such exchanges and the rise of imports from them. The trade of Italy, however, was yet of trifling magnitude and still below the pre-war standard. The case hardly deserves scrutiny. We propose, therefore, to confine our attention to Japan only.

For the purpose of the above enquiry, we present in another and more detailed form the imports of Japanese cloths and

... into India, placing them side by side with the prevailing rates of exchange.

TABLE.[1]

Period.	Exchange Rate, Rs. per 100 yen.	Yarn (million lbs.).	Cloth (million yds.).
1923.			
January-June ...	154–158	14·24	64·93
July-December ...	155–152	10·70	53·21
1924.			
January-June ...	147–135	10·16	62·28
July-December ...	133–105	20·55	83·26
1925.			
January-June ...	107–111	18·73	93·21
July-December ...	112–118	12·99	107·23
1926.			
January-June ...	120–130	17·73	116·42
July-November ...	130–137	8·09	91·32

It may be seen from the above that, during the second half of 1923, imports, notwithstanding an appreciable fall of the exchange, diminished rather than increased. In the first half of 1924, when exchange underwent a marked depreciation, cloth advanced but yarn receded from the previous level. July to December, 1924, saw, indeed, a sudden jump in the importation of both yarns and piece-goods as if in tune with a heavy drop in the exchange ; but in the following months, although the exchange continued to depreciate still further, the upward tendency of imports manifested itself only in regard to cloths, and not yarns, which, on the contrary, suffered a decrease. During the later part of the year 1925 the exchange commenced to rise and yarn imports continued to fall ; but there was, on the other hand, a rise in the imports of cloth. In 1926, notwithstanding the continuance of the upward trend of the exchange, there was in the first six months a remarkable advance both of yarn and piece-goods imports, while in the last five months there was an equally marked decline. In plain language, the figures shown above in the table lend themselves to no precise conclusion.

[1] Table XXXVI of the Indian Tariff Board Report (Cotton Textile Industry Enquiry), 1927.

It must, however, be recognized that so long as there exists no way of segregating the other factors, it is hardly possible to trace the tangible effect of exchange on trade A reference to Table XXXV (which we need not reproduce here) of the *Tariff Board Report on Cotton Textile Industry Enquiry* (p. 55) will show that in Japan the tendency for wages and wholesale prices to rise as the exchange moved down was " comparatively slow in its operation." There can, therefore, be " little doubt that the depreciation of the Japanese exchange, while it lasted, stimulated exports from Japan to India." All that, therefore, we are entitled to say on the basis of evidence we can scan from trade returns is that exchange was certainly not the preponderating factor in the situation.

It is in the end gratifying to note that although there was imposed a temporary handicap on the Indian cotton industry by the appreciating rupee, the effect of which was further complicated and aggravated by the heavy depreciation of the yen and the lira, it did not in actual practice lead to any increase in the percentage proportion of imported cloths or contrarily to any decrease in the share of indigenous mill-made goods in relation to total Indian consumption. During the quinquennium 1921–2 to 1925–6 the proportion of net consumption of Indian mill-production to the total Indian consumption of yarns was 92·6 as compared with 92·7 during the pre-war quinquennium and 95·1 during the exceptional years of the war. The Indian mills can, therefore, hardly be said to have lost their ground in yarns during the period of the appreciating rupee. Over the same period the quantum of Indian supply of piece-goods showed, in fact, a noticeable increase. From the pre-war quinquennial average of 44·3 per cent. and the war average of 56·7 per cent. it advanced to 66 per cent. during the lustrum 1921–2 to 1925–6.

The crux of the whole situation, however, lay not in the volume of imports but in the price at which they were placed on the market. It was an obvious and acknowledged fact that since 1921 prices of Indian cotton goods were rapidly falling off in sympathy with the decline in the prices of

imported goods. To a certain degree a downward trend of prices from the high level reached in the abnormal conditions of the war and its aftermath, when the mill-owners were able to pocket at the expense of the consumers more than their reasonable share of profits, was perfectly natural. The depressing influence did not, however, stop there but continued to drag down the price even to the point of unremunerativeness. In this connection attention may again be drawn to the table on page 224 to show that the same depressing influence, as was only to be expected, was being felt in regard to prices of exports also. The careful investigation of the Tariff Board revealed that it was, in fact, the Japanese competition which was responsible for this state of affairs in the home market and the same was more or less true in respect of external markets. No evidence was forthcoming that Lancashire goods were being sold at prices which undercut Indian prices. The question now is: How far was the exchange instrumental in assisting the Japanese manufacturers in underselling the Indian products? It is very difficult to say. That the strength of Japan's competition did not, however, depend in any essential degree on the accident of exchange stimulus seems perfectly certain. For we cannot forget that since March, 1921, the import duty on cotton piece-goods into India was raised to 11 per cent., while the excise remained unchanged at 3½ per cent.; from December, 1925, the excise duty was altogether abolished; towards the end of 1926 the yen practically returned to gold parity, and notwithstanding every other circumstance which in subsequent years either deprived Japan of her artificial advantage or countervailed it, the force of competition which India had to meet from that country showed no sign of abatement.

Our finding may now be conveniently summarized. The appreciation of the rupee between 1921 and 1925, unaccompanied as it was without any corresponding adjustment of other factors, naturally lessened the competitive strength of the Indian manufacturer. The difficulty of the situation was still further increased by the heavy depreciation of the currency of so formidable a rival as Japan. Notwithstanding

all that, our exports of piece-goods continued to show their normal expansion. Our yarn trade, however, strikingly declined, but it was primarily accounted for by reasons scarcely connected with currency and exchange. Imports from countries other than Japan and Italy showed no noticeable or steady increase. Although the influx of goods from the former country showed a prodigious rate of increase, India was on the whole able to maintain her normal share of the yarn trade and actually improved upon her previous position in respect of the piece-goods trade. Nevertheless, it was a fact that the Japanese competition was constantly exercising a depressing influence on the prices of local products, tending to eliminate all normal profits for the Indian mill-owners. Although the exchange was undoubtedly an additional favourable factor for Japan, yet the subsequent vitality of her competition in the face of every counteracting circumstance bore abundant testimony to the fact that her ability to undersell Indian goods rested not on the ephemeral stimulus of exchange but presumably on a more lasting foundation.

VII

HOW FAR TRADE WAS AFFECTED BY ADVERSE CURRENCY AND EXCHANGE FACTORS (*further contd.*)

(*d*) *In Reference to Coal Trade.*

If we next turn to an examination of the position of coal industry, we at once observe that the depression from which it was suffering had not even the remotest traceable connection with the upward movement of the exchange. On the contrary, it was precisely during the period when the rupee exchange was evincing its upward bias that the industry regained the ground which it had lost in 1921 and 1922 as the consequence of a sudden influx of foreign coal into the Indian market. Let us carefully scan the following table which supplies the necessary particulars.

TABLE.
(Figs. in 1,000 tons.)

	1. Net Ind. Production (Gross production *minus* wastage and colliery consumption.)	2. Exp.	3. Coal retained for Ind. consumption.	4. Imp.	3 plus 4. Total consumption.	Percentage to total.	
						Ind. coal.	Foreign coal.
1910...	10,541	988	9,553	333	9,886	96·64	3·36
1911...	11,126	862	10,264	340	10,604	96·80	3·20
1912...	12,868	899	11,969	612	12,581	95·14	4·86
1913...	14,182	759	13,423	858	14,281	94·00	6·00
1921...	16,890	276	16,614	1,300	17,914	92·75	7·25
1922...	16,635	77	16,558	1,713	18,271	90·63	9·37
1923...	17,200	137	17,063	629	17,692	96·45	3·55
1924...	18,530	206	18,324	469	18,793	97·51	2·49
1925...	18,159	216	17,943	488	18,431	97·36	2·64

It is to be observed that after the year 1923 the importation of foreign coal was far from excessive, especially in comparison with 1912 and 1913 figures, and it tended on the whole to fall rather than increase. In fact, it is quite noteworthy that in 1923 the proportion of foreign coal to total Indian consumption was appreciably smaller than in 1912 and 1913 and was almost the same as in 1910 and 1911, when there existed no foreign competition worth the name. It is still more significant that in the following year, when the greater part of the rise in exchange took place, the proportion instead of increasing went still farther down. In 1925, with a slight increase in imports and a simultaneous reduction of domestic production, the proportion went up a little but was yet noticeably below the level of any pre-war year.

It may be argued that a general analysis of this kind does not by itself prove anything. For the truth of the matter is that it is only in the sea-board markets that foreign competition makes itself effective. The point at issue cannot, therefore, be truly decided without a special reference to the situation existing in such markets. For the purpose of this special enquiry we extract (see next page) the following figures of coal imports into Burma, Bombay and Madras, the three important sea-board markets where foreign and indigenous coal come into conflict.

TABLE

(Figs. in 1,000 tons.)

Year	BURMA					BOMBAY					MADRAS				
	Imp Foreign Coal	Imp. Ind Coal	Total Imp	Percentage of Ind Coal to total	Percentage of Foreign Coal to total.	Imp Foreign Coal	Imp. Ind Coal	Total Imp	Percentage of Ind. Coal to total.	Percentage of Foreign Coal to total.	Imp. Foreign Coal	Imp. Ind Coal.	Total Imp	Percentage of Ind. Coal to total.	Percentage of Foreign Coal to total.
1910-1	24	425	449	94·66	5·34	281	869	1,150	75·57	24·43	4	235	240	98·33	1·67
1911-2	15	379	394	96·19	3·81	268	802	1,070	74·96	25·04	2	273	275	99·27	0·73
1912-3	42	456	498	91·57	8·43	574	785	1,359	57·76	42·24	16	379	395	95·95	4·05
1913-4	31	475	506	93·88	6·12	457	757	1,214	62·36	37·64	13	343	356	96·35	3·65
1921-2	209	361	570	63·33	36·67	1,123	639	1,763	36·31	63·69	86	313	399	78·45	21·55
1922-3	86	332	418	79·43	20·57	627	282	909	31·02	68·98	58	334	392	85·21	14·79
1923-4	57	472	529	89·23	10·77	375	239	614	38·93	61·07	67	212	279	75·99	24·01
1924-5	19	374	393	95·17	4·83	289	334	623	53·61	46·39	31	331	362	91·44	8·56

A minute scrutiny of the above table is needless. The steady decline of imports during the years while exchange was moving higher and higher and the simultaneous recovery of the ground, which Indian business had lost in 1921–2, will be equally clearly manifest in respect of all the three markets. By 1924–5 Indian coal recaptured more than its pre-war share of the Burma trade, nearly regained its lost pre-eminence in Madras, and in Bombay, notwithstanding the fact that it had previously earned a bad name for itself, was on the fair way to the re-establishment of its former position.

It is thus evident from our above examination that the hold of the Indian coal on the national market was not only not shaken but actually strengthened between 1921–2 and 1924–5 while the rupee was steadily appreciating. Nevertheless, the depression of the coal industry was an undoubted fact. What, however, was the cause of the depression ? It was fairly obvious that the low price of Indian coal was not in the least the effect of competition with imported coal. In the whole of the vast interior, prices were altogether unaffected by any external competition. Foreign competition, so far as it existed, was entirely localized in seaboard markets and was therefore scarcely likely to appreciably affect the average price obtained by the Indian mines on their total sale. The true cause of the depression, as the Tariff Board cogently remarked, was due to "over-rapid development caused by the most sanguine hopes during the exceedingly prosperous years from 1917 to 1921, when the demand for coal was growing and foreign supplies were unobtainable."

Next, as regards exports of coal, it may be seen that they tended to grow rather than decline since the year 1922 (see table on page 235). True, the recovery was extremely slow ; but the reasons for that were sufficiently well known and obvious. Shortly after the termination of the war (*i.e.*, by the middle of 1920) there arose for various reasons an extreme scarcity of coal in India and consequently exportation to overseas markets was subjected to various controls and restrictions. Supplies from competitive sources quickly

filled in the gap and in the interval secured a firm hold on India's former markets. To wrest back trade, once lost to powerful competitors, was in all circumstances bound to be extremely difficult, especially in the face of competition from virtually subsidized South African coal. But it was rendered still more so by the existence of a strong prejudice against Indian coal which, as in Bombay, owed its origin to the fact that the supplies reaching them in the past were often of inferior quality, or not what they were represented to be. After arrangement had been made in India for grading and for the grant of certificates for export coal, the prejudice was gradually removed and the Indian coal was able once again, slowly and steadily, to consolidate its position in adjacent markets.[1] It would therefore be clearly erroneous to add appreciation of the rupee as one of the contributory causes of the slow recovery of the export trade, at least, in so far as it would be attributing to it a practical importance, though under the circumstances it had no more than a mere theoretical significance.

(e) *In Reference to Trade in Steel.*

Last of all, we intend to examine briefly the case of the third important industry, steel, which was in a state of depression and, in the face of foreign competition, was compelled during the period under consideration to part with its output at unprofitable prices. It will be recalled that the depressed condition of the industry soon led to a demand for protection which was referred to the Tariff Board for enquiry in the middle of 1923. Till then the appreciation of the rupee-sterling exchange had not proceeded far; in other words, the depression of the industry dated from a period before the situation was sensibly complicated by the upward movement of the rupee. In fact, the slump in the steel trade, it was clearly ascertained by the Tariff Board, was not peculiar to India but almost world-wide and was accounted for by an appreciable increase in the world's productive capacity of steel together with a great decline in its consumption. It must, however, be added that the

[1] See *infra.*, p. 257.

simultaneous depreciation of the Continental exchanges, leading to sporadic dumping of goods from those countries on the Indian market, undoubtedly served to accentuate the difficulty which confronted us at the time. But this evidently was a difficulty which we had to share with every other nation whose currency was less depreciated than those of the Continental countries.

Let us now pass on to the enquiry how far and in what manner the appreciation of the rupee exchange, which became quite pronounced since the middle of 1924, hit the Indian steel industry. The shelter which was afforded to the industry by the Act of 1924 was estimated on the assumption that the sterling exchange would remain at 1s. 4d. to the rupee. The subsequent rapid rise of the exchange from 1s. 4d. to 1s. 6d. was calculated to bring down the price of all imported steel by about Rs. 16 per ton and thus expose the native industry to the full blast of foreign competition. In actual circumstances, however, the British price of structural sections fell by no more than 10s. a ton from that which ruled in the latter part of 1923 and the prices of British bars and plates remained practically unaltered.[1] In consequence, the importation of steel from Great Britain showed no tendency to increase. On the other hand, so far as Continental steel was concerned, there was a heavy fall in its price in India. In fact it was steadily depreciating even in sterling price, thus competing with British steel both in foreign and in the British domestic market. The consequence, as far as we were concerned, was a rapid rise in our imports partly in substitution for British steel from Belgium, which, among the steel-producing Continental countries, occupied the leading place in our market.

In support of our assertion that it was the Belgian and not the British steel which was imported in increasing quantities, we reproduce the figures on the following page. In the table the imports during the first half of the fiscal years 1922–23, 1923–24 and 1924–25 have been compared. On account of the occupation of the Ruhr in

[1] *Vide Report of the Indian Tariff Board regarding the Increase of the Duties on Steel*, 1924, Chap. II, pp. 6-7.

January, 1923, Continental supplies of steel into India were appreciably curtailed during the first half of the fiscal year 1923-4, while in the second half when the effects of the occupation had passed off, there was a sudden jump in the quantity imported. Consequently, in order to afford a truer perspective, it is desirable to compare the situation in 1924-5 with the average imports during the first six months of the fiscal years 1922-3 and 1923-4.

TABLE.

IMPORTS OF STEEL INTO INDIA.

(Quantities in tons.)

Description	From United Kingdom.		From Belgium.		Total.	
	Average April-Sept., 1922 and 1923.	April-Sept., 1924.	Average April-Sept., 1922 and 1923.	April-Sept., 1924.	Average April-Sept., 1922 and 1923.	April-Sept., 1924.
Steel bars ...	8,521	7,999	44,938	67,850	75,486	104,007
Steel angles ...	—	—	—	—	10,069	19,087
Beams, pillars, girders and bridgework...	18,048	17,635	12,573	18,547	33,150	41,943
Plates and sheets, not galvanized or tinned (Iron and Steel) ...	25,881	16,301	10,380	20,493	46,314	49,294

A study of the course of fluctuations of the Belgian franc in relation to the dollar would show that, after its collapse in March, 1924, and a sharp, sudden rally in the following months, it kept fairly steady with slight oscillations on both sides of 4·55 throughout the rest of the year. It was in truth the sterling which was undergoing an almost uninterrupted rise during 1924. There was consequently no basis for the suspicion that the sag in the Continental price of steel and its heavy importation into India in competition with native and British steel was in any appreciable degree accelerated by the depreciation of the Continental currencies. It seems difficult to avoid the conclusion that the situation, as it rose and affected the Indian steel industry, was largely

the outcome of the appreciation of the rupee exchange and, in so far as there appeared a gulf between British and Continental steel prices, it was due to the partial appreciation of the sterling itself. Even so, it must here be pointed out, the exchange was not accountable for the whole of the difficulty. " There seems to be no doubt—more than one of the importing firms have frankly admitted it—that very large orders were placed at the beginning of 1924 in the hope that the steel would arrive in India before the new duties took effect, and that the subsequent rise in the internal price would yield a substantial profit. Much of the steel so ordered could not in any case have reached India in time, and, owing to transport difficulties in Belgium, considerable quantities of steel were held up much longer than usual. The result was that, after the new duties came into force, the stream of steel from Antwerp continued to pour into India with unabated vigour."[1]

VIII

CONCLUSION

Our analysis in the foregoing pages has, we believe, shown in a clear and irrefutable manner that the actual course of events did not accord with the apprehensions raised by the upward trend of the exchange. Contrary to popular ideas on the subject, the course of exchange did not, for reasons already explained, reflect itself in adverse conditions in the general trade of the country. The cotton industry, notwithstanding what the protagonists of the 16d. rupee have often laboured to make out, suffered not from exchange but through a variety of other causes. The onset of the Japanese competition was no doubt severe to an extent but it was fundamentally due to the latter's energy and resource which might be followed to advantage by our country. It did not again require much perspicacity to realize that in regard to the

[1] *Report of the Indian Tariff Board regarding the Increase of the Duties on Steel*, 1924, p. 9.

difficulty of the coal industry, exchange was hardly a component factor. Only the steel industry was to a large extent embarrassed by the rapid appreciation of the rupee exchange since the middle of 1924, and it may here be added that after the investigation of the Tariff Board it received sufficient additional aid to counteract foreign competition.

We must, however, once again make it clear that there was no doubt of the fundamental fact. The circumstances during the period in question were, indeed, extremely difficult, complicated as they were by the constant appreciation of the rupee over and above frequent depreciations of Continental and other currencies. It was the nascent and small industrial establishments which, in fact, sustained through exchange difficulties great and often irreparable damage. Though even in such cases there was often a partial compensation in the fact that the rise in exchange diminished the cost of raw materials or other elements of their cost of production, yet it was true that in not a few cases the increase in the import of manufactured goods at relatively low prices actually forced industries, floated during the war, completely out of existence. The situation, however, had one redeeming feature. The principle was enunciated by the Fiscal Commission of 1921–2,[1] and it was early accepted by the Tariff Board,[2] that so long as foreign exchange was not based on a stable footing, the exchange factor was not to be ignored in the scheme of protection for Indian industries. Thus there was afforded an opportunity for every industry which felt it was being handicapped by exchange to move the authorities for the grant of necessary and adequate relief. In this there existed an ample safeguard that an afflicted industry, otherwise built up on a sound basis, would not be suffered to pine from mere harassment of exchange.

To sum up all and to recapitulate, it is in the first place quite evident that the probable injury to our foreign trade from the appreciation of the rupee exchange was in practice either wholly, or, at any rate, very largely obviated by other counter-

[1] *Vide* Report, pp. 80-81.

[2] *Vide Report of the Indian Tariff Board regarding the Increase of the Duties on Steel*, 1924, p. 34.

acting forces. Secondly, it is clearly seen that more often than not the difficulties which confronted our major manufacturing industries at the time had their roots elsewhere and in fact deeper than in the conditions of the exchange. The situation, indeed, was such as to call for a patient and careful scrutiny of the problems which faced each individual industry affected and an arduous attempt on the part of its captains to tackle them rightly by judicious reorganization and reform. There was clearly no occasion for making a flutter over the exchange question, and thus allowing precious time to be lost, though unfortunately, it must be added, most of our industrial leaders, who ought to have known better, were still barking up the wrong tree and refusing to look reality in the face. Lastly, it was pointed out here above that even when a particular industry was subjected to serious embarrassment from the rising trend of the exchange, there existed, however, no cause for extreme solicitude in so far as there was provided through the machinery of the Tariff Board an ultimate, essential safeguard against any special disability of the above kind.

CHAPTER X

CURRENCY CHANGES AND TRADE DEVELOPMENT SINCE THE STABILIZATION OF THE EXCHANGE

I

PREFACE

In the beginning of 1927 the rupee, which had swung loose from the anchor of 1s. 4d. in the middle of 1917 and had since drifted in an "uncharted sea," was, in accordance with the recommendations of the Hilton-Young Commission, fastened once more to its new moorings at 18d. The ratio was the theme of an animated controversy and wordy duels that must be still fresh in our memory. There were inseparably associated with this question of ratio a number of relevant issues which we can well afford to lay aside. The point to which our enquiry must here be limited is concerned merely with the possible influence of the new ratio on the volume and composition of India's foreign commerce.

The axiomatic truth, frequently emphasized in preceding pages, we need not repeat here once again. It is incontrovertible that "no rate of exchange" can possibly be "permanently advantageous or disadvantageous for-trade." It is only during a period of interval, when the economic adjustments have not yet completed themselves, that exchange is capable of disturbing the normal course of trade. Nevertheless, it must be admitted that the transitional effect may not in all cases be altogether negligible or temporary. Our whole investigation must, therefore, primarily hinge on this single point, namely, whether at the time of the fixation of the legal ratio of the rupee economic equilibrium was fairly attained at the particular ratio adopted.

II

THE RATIO OF STABILIZATION AND ECONOMIC ADJUSTMENT

Let us now proceed to this enquiry. In this connection it must in the first place be borne in mind that the rupee exchange was in a state of constant flux ever since the middle of 1917; indeed in subsequent years it was often subject to especially violent fluctuations. When the 1s. 6d. ratio was placed on the statute book, it was not only holding the field but had behind a record of stability extending over a period of two years in relation to gold and two and a half years in relation to sterling. In so far as exchange fluctuations did not reflect changes in relative price-levels, but on the contrary acted as a lever to bring price-levels in harmony with them, it is clear that, "the only ratio to which prices had any opportunity of adjusting themselves in the period since 1918 has been the ratio of 1s. 6d." The charge frequently levelled against the authorities by the advocates of the 16d. rate that the 18d. rupee was attained by conscious manipulation of currency, though it was to a certain extent founded in fact, is not, however, strictly relevant to the present issue. By whatever means the ratio may have been brought about and maintained, the very fact that it continued at that level for a certain length of time naturally provided the justification for its subsequent retention, if economic conditions, as were only to be expected, had meanwhile reaccommodated themselves to the new exchange position. Whether the Government was justified in its initial steps, that is to say, in sticking to 16d. sterling rather than to 16d. gold since October, 1924, and whether, if things were managed differently, the open market exchange by the interplay of free economic forces would have eventually settled down at the 16d. ratio is quite another question and does not, let us once again say, bear upon the point at issue. The only pertinent question, as far as we are concerned here, is about the situation in hand and whether economic conditions existed in harmony with it.

(*a*) *In Respect of Prices.*

Prices and wages represent, in fact, the two important directions in which readjustments were first needed to bring about the above harmony. Let us investigate how far the above factors had adapted themselves to the ratio at which the exchange was legally fixed. If the reader will refer to the *Report of the Hilton-Young Commission*,[1] where the "nature, pace and extent of interadjustments between prices and exchange" during the period from June, 1922, to December, 1925, have been illustrated by means of graphic representation, he will observe that, "in 1923 and the first half of 1924, when the exchange was fairly steady at about 1s. 3d. gold, movements of world prices and of Indian rupee prices roughly corresponded, but from October, 1924, to September, 1925, there was a rapid and violent downward movement of the rupee price-level which was not the reflection of any similar movement in world prices. The line representing Indian prices in terms of gold, however, continued to follow approximately the same trend as world prices, thus indicating that the fall of rupee prices was due to the adjustment of these prices to a new level of exchange." Further, "the final curves in the diagrams suggest that the adjustment of internal prices in India to the 1s. 6d. rate of exchange is practically complete and that the trend of rupee prices has again begun to correspond with that of world gold prices."

The Note of Dissent took, on the other hand, the whole length of price movements in India between July, 1922, and February, 1926, which on an average of Calcutta and Bombay index numbers showed a fall of 30 points from 185 to 155. But, in view of the fact that the world price-level stood on exactly the same plane at the beginning and at the end of the aforesaid period while the rupee exchange appreciated in the interval to the extent of 27 per cent., it was claimed that a depression of 50 points (*i.e.*, 27% of 185) was required for complete adjustment. Thus, it was argued, there existed a clear lag in adjustment between prices and exchange.

[1] *Vide* pp. 68-74.

Against the contention of the dissentient note, it must in the first place be stated that the method of its approach towards the question is not quite free from objections. For evidently the actual figures which are thus obtained depend to a certain extent on the selection of particular dates, which may not be strictly comparable, and on the mode of compilation of figures, that is likely to vary from one country to another. As the majority of the Commissioners rightly pointed out, " It may be said that the index figures are more reliable in indicating the general trend of prices in each particular country than in comparing the relative levels of prices in two or more countries."[1]

In the second place, it is to be noted that the results obtained by the Minute of Dissent have been vitiated to a certain extent by errors of calculation, which tend to make the maladjustment appear more marked than was actually warranted by the figures. To quote the words of Sir Basil Blackett, who was the first to expose the arithmetical error : " But the amount to be expected for full adjustment was not 50 points but 39, since a rise of 27 per cent. in the first position (exchange) corresponds to a fall of 21 per cent., not 27 per cent., in the other (Indian price-level). Thus since the world price-level was 150 both at the beginning and the end of the period, the adjustment was not on Sir Purshotamdas' figures 30–50 or 60 per cent. as he says, but 30–39 or 77 per cent., leaving 22 per cent., not 40 per cent., as the extent of the then lack of adjustment."[2] He went on to demonstrate that if the figures were carried on to May, 1926, in that case, " using the same index numbers as are used in the Minute of Dissent, 80 per cent. of the change in prices corresponding to the 1s. 6d. rate had already taken place a month before the Commission reported."[3]

The point that emerges with distinctness from the above discussions is that prices had achieved a substantial degree of adjustment at about the time when the Currency

[1] *Vide* Report, pp. 68–9.
[2] Lecture on the Indian Currency Commission's Report in the Delhi University Convocation Hall on 23rd November, 1926. See *Times of India*, November 24th, p. 13.
[3] *Ibid.*

Commission Report was drawn up. During the period which intervened between its publication and the statutory enactment of the 18d. ratio, the rest of the adjustment was no doubt practically, if not perfectly, accomplished.

Much was made of the fact by the opponents of the 18d. ratio that the exchange showed some weakness in April, 1926, and some months later in the same year, when the Government was compelled to have recourse to a certain degree of deflation in support of the exchange. It was, however, completely forgotten by the critics of the Governmental policy that manipulation up to a certain extent in accordance with the varying conditions of trade and business formed an inseparable part of every currency system. The fact that there was not caused the least stringency in the money market as the consequence of the Government's intervention but, on the contrary, there always existed more than usual ease in the Indian money conditions was proof positive of the fact that no undue pressure was being brought to bear upon the price-level for the maintenance of the exchange at the prevailing ratio.

(*b*) *In Respect of Wages.*

We now proceed to the question of wages. "Under normal conditions the natural formation of prices always tends to form a certain economic equilibrium between different groups of prices. A fundamental condition for this equilibrium is that produce prices correspond to the costs of production—that is to say, the sum total of prices that had to be paid foı producing the article."[1] A most important, and doubtless the least tractable, element in the totaſ costs of production is wages. It is, therefore, very important to enquire how far the Indian wage-level, both industrial and agricultural, had responded to the new situation.

On this point there is a deplorable dearth of reliable and adequate evidence. However defective the statistics annually published in the volumes *Wages and Prices in India* may have been, we might have with the aid of such figures reached a conclusion which, if not strictly accurate,

[1] Cassel, *Money and Foreign Exchange after* 1914, p. 274.

would not have been far from the substantive truth. For "the main advantage of the application of statistical methods" is "that data liable to error can, when treated in the mass, be utilized to produce correct facts, so long as the errors are equally likely to occur on either side of the true value." Unfortunately, however, the discontinuance for reasons of economy of the publication of the abovenamed series since the year 1923 leaves us without any means to arrive at the definite truth.

The opinion of the majority of the Hilton-Young Commission affords us no reliable guidance. It was based on inference and probabilities of the case, not on any analytical study of facts and figures, and on the whole it was a negative rather than a positive verdict. "Where exchange and prices," said they, "have been steady over a considerable period, we should feel justified in assuming that wages were in adjustment unless there were any clear indications to the contrary."[1] Our experience on a previous occasion, if somewhat limited, showed, on the contrary, that once wages in India had gone up on the scale, they proved extremely tenacious of existence at the higher level and did not so quickly climb down. The question, however, still remains whether, during the previous period of rising prices which continued till the year 1920–1, wages followed quickly in the steps of the ascending price-level. That is a fact which has first to be clearly ascertained and in our enquiry here we must never lose sight of this point.

We now turn for a moment to the Note of Dissent for the purpose of examining if it throws any light on the question. There is an attempt here to documentize the view which is maintained in opposition to that of the majority of the Commissioners. But on close scrutiny the facts and figures presented appear no more conclusive than the *a priori* assumption of the majority. In the first place, as far as industrial wages are concerned, there is no evidence adduced to show the existence of maladjustment between wages and prices. The writer only makes the bare statement, based on information obtained from private enquiries, that since 1922

[1] *Supra*, p. 249.

no reduction had been made in the wage-level of most industries. This, of course, does not by itself prove anything. On the writer's own showing "the industrial labourer either did not press effectively for full compensation for the higher cost of living or the employer delayed recognizing the hardship of his employee" in preceding years when prices were rapidly in the ascendant.

In regard to the jute mill industry for which only the writer of the dissentient minute quotes detailed figures, it is at once evident that wages actually lagged behind prices and it was only in 1925 that they first came into fairly close line with each other. So, too, in Bengal coal mines, wages were quite in harmony with the cost of living index in 1925. It is true that the scale in the Bombay cotton industry was disproportionately high and every attempt on the part of the mill-owners to effect reduction proved entirely fruitless, except that they were able to withdraw in 1924 the yearly bonus sanctioned during the boom year. On the other hand it is worth notice that the extent of maladjustment was too wide to be adequately bridged even by reversion to 16d. exchange basis. In fact, wages in Bombay, as the Tariff Board pointed out with sufficient clearness, constituted a problem peculiarly its own. Secondly, we must bear in mind that the situation in Bombay was not typical of the rest of India. In Ahmedabad, for example, wages were brought down by 15½ per cent. in the middle of 1923. On the whole, therefore, the evidence before the Royal Commission seems to point to the conclusion that except in individual instances there did not most probably exist any general maladjustment in respect of the industrial wage-level.

As we now go over to take up the discussion of agricultural wages, we find that we are on more uncertain grounds here. The materials available to the Royal Commission were very fragmentary, consisting of wages for the Bombay Presidency only. Let us examine them for what they are worth. On the basis of such figures it is, of course, quite evident that wages exhibited, during the period under consideration, a constant upward bent and in 1925 the real wages of labour

stood on a level considerably higher than was true in 1914. With the lastnamed year as the base, the index numbers of real wages were as high as 125, 114 and 132 respectively, for field, ordinary and skilled labour in rural areas.

"In the absence of any other data," the Minute of Dissent accepts such partial statistics described above "as representing the general agricultural wage-level in India." A caveat must be entered against this assumption. Extensive constructional work associated with various development projects in reclamation, irrigation and building of dams, new and large capital undertakings in connection with electrification of railways, etc., and lastly, exceptionally high prices of cotton especially complicated the wage situation in the Bombay Presidency during the period in question. In the ordinary course of events the existence of a level of wages higher than pre-war was certainly to be expected, particularly in that province.

Secondly, we have to bear in mind that even in pre-war years and indeed from long past the curve of real wages in India manifested a continual tendency for slow and steady rise. To take the example near at hand, in 1914, as compared with the year 1900, the indices of money wages for field, ordinary and skilled labour in the Bombay Presidency stood at 180, 183 and 133 respectively, although the cost of living index figures had in the interval gone up by 17 points only. True the base year 1900 was quite an abnormal year when, on account of the prevalence of famine, wages dropped in rural areas far below the previous normal; but even when we made every allowance for this, there would still remain a clear balance of higher real wages at least for ordinary and field labour.[1] Whether the tendency was the direct outcome of increased efficiency of agricultural production in the reward for which labour and capital equally shared, or whether, on the contrary, it represented nothing more than a gradual elevation of the level of wages, which social conditions had kept too low, we have no clear means to determine. Whatever may have been the cause, the tendency was manifestly there, and it is reasonable to assume that the

[1] *Vide* Statistics in the *Bombay Labour Gazette*, January, 1925, p. 503.

cause was still at work to prolong the tendency in subsequent years. In this connection it is quite relevant to notice one very obvious fact. Largely as the consequence of the valuable work done by the Indian Central Cotton Committee to improve its cultivation, the yield of cotton in India showed some improvement in post-war as compared with pre-war years.[1] In the Bombay Presidency, where cotton constitutes the most important cash crop, an increase in its yield was *prima facie* likely to push up the wage-level to a certain extent, although no definite conclusion of this kind is strictly permissible without a complete examination of the entire range of agricultural production.

If we now look at the figures of agricultural wages in Bombay in the light of the above discussions and read them carefully between the lines, the untenability of the contention put forward in the Minute of Dissent is at once clearly seen and, after all, it appears scarcely probable that there existed any noticeable degree of maladjustment in agricultural wages. Even if it were assumed that there still existed some maladjustment, it would be necessary to remember a few points that we might retain a right sense of proportion in regard to the injury which might thereby be inflicted on the agriculturist.

In the first place, we have to bear in mind that, so far as any disparity still existed, it was sure to have been quite small. "In India a much larger percentage of wages is spent on foodstuffs than in Western countries, and therefore there is a very necessary ultimate adjustment of wages to the price of food grains."[2] Besides, the facts before us, which we have clearly analysed in the foregoing paragraphs, it is true, do not clearly establish that the process of adjustment was complete, but at any rate they convincingly demonstrate that agricultural wages in India were not to any considerable extent out of accord with the new level of prices based on the 18d. ratio. Secondly, it is not to be forgotten that a considerable section of our peasant population seldom hires

[1] Yield per hectare in quintals: Average 1909-13, 0,9; 1921, 1,1; 1922, 1,0; 1923, 1924 and 1925, 1,0; 1926, 0,9; 1927, 1,1; 1928, 1,0; 1929, 0,9.

[2] *Royal Com. on Currency*, 1926, p. 74.

labour and, ordinarily speaking, is not therefore under any obligation to pay wages. Lastly, on account of a level of prices considerably higher in comparison with pre-war years, the burden of land revenue was now lighter than was intended at the time of the settlement.

Thus, on the whole, there was no ground to suppose that the stabilization of the exchange at 1s. 6d. was likely to affect the fortune of the agriculturist in any appreciable manner. A good deal of the hardship of our farmers in post-war years, which was ascribed to the influence of exchange, was, in fact, due to the relative state of prices of agricultural and other commodities. "Whatever the level of exchange, it is not probable that India with her intimate trade relations with the rest of the world could have escaped the reduction in the purchasing power of the agricultural classes as the result of a world-wide movement of prices against the agriculturist such as appear to have taken place since 1920."[1]

After our protracted discussion it is probably not necessary to affirm that, as far as economic conditions in India went, the case for stabilization of the exchange at 18d. was overwhelmingly strong in the beginning of 1927, when the necessary legislation was passed. At the same time outside conditions generally[2] were gradually making for the maintenance of stability of world prices. It was consequently desirable to end the indefinite and unsatisfactory position of Indian currency in which it was left ever since the breakdown of the system in 1917. It is probably equally needless to add that, whatever may be the varying shades of opinion as to the degree of adjustment which was actually reached on the basis of the 18d. ratio, there cannot be a shadow of doubt that in 1927 the tide of economic forces had led us far away

[1] *Report of the Indian Tariff Board* (Cotton Textile Industry Enquiry) Vol. I, p. 29.

[2] *Cf.* "It is well known that the strongest financial countries, Great Britain and the United States of America, are both directing their monetary policy towards the maintenance of stable prices at somewhere round the Index Number of 150, as compared with 100 pre-war. This has been publicly affirmed to be the policy of the Federal Reserve Board of the United States." Speech of Sir Basil Blackett on 7th March, 1927, on the Currency Bill. See *Legislative Assembly Debates*, 1927, Vol. II, p. 1751.

from the anchorage-ground of 1s. 4d. An attempt to revert to the old ratio was therefore bound to react with catastrophic disturbance, and though it might give breathing time to a few industries which were in a state of inanition and a temporary lift to others, yet eventually, on account of the dangers and disorganization resulting from instability in currency values, it could only have done more harm than good.

III

THE NEW RATIO AND TRADE

Let us now proceed to examine if the predictions of disaster, loudly proclaimed by the antagonists of the 18d. rupee, have actually come to pass. In view of our finding that the chief economic factors were in substantial adjustment with the ratio at the time of its fixation by statutory enactment, there is no apparent reason why we should undertake this investigation. We are certainly justified in letting the prophets of evil severely alone. Nevertheless, it is in our opinion worth while to take some extra trouble in order to disarm all suspicion from the average mind, and besides, we on our part want to be doubly sure in respect of any remarks that we make.

(*a*) *Trade in General.*

There is no need here to seek the aid of figures and statistics to prove that the general trade statistics furnish no support whatever to the gloomy prophecy which had been constantly dinned into public ears. In case the reader has forgotten the simple fact, a reference back to Section II of Chapter VI will remind him that the entire period commencing from 1923–4 exhibits a marked tendency towards steady recovery of our trade and is on the whole characterized by continuity of progress. In fact, since 1926–7 the record of progress has been entirely unbroken. It is only in the present year (1929–30), when the whole world has begun to reel under the strain of an unparalleled depression, that our trade has suffered its first setback.

In order to score his point Sir Purshotamdas chooses to accept 1924–5 and 1925–6, the peak years, when there was a combination of favourable circumstances, as the basis for subsequent comparison of the total annual value of our export trade.[1] That is not quite fair and is surely as misleading as is a comparison with 1920–1 and 1921–2, when for circumstances equally unusual our export trade had shrunk considerably in value. A partial view of this kind will lead the enquirer astray and conceal from him the correct picture of the situation. We must take a long view on a matter of this kind.

At the same time, however, it is not at all necessary to overstate the case in order to substantiate the point which we seek to establish here. In an article contributed to the *Asiatic Review*, July, 1929, Sir Jehangir Coyajee asserts: "It is no exaggeration to say that the recovery of trade since the general depression has been more marked in the case of India than in that of any other country."[2] That, we know, is not quite true; but then what does it matter even if it is not? It is sufficient unto the purpose of our argument here that there has been since 1926–7 a steady growth of our foreign trade. For had the new ratio been fixed too high, the recovery of the Indian trade after that year would without doubt have been materially hindered. It may, however, be argued in the last resort by the advocates of the 16d. ratio that the expansion of our trade would have been greater still, if the exchange were not pegged at an artificially higher ratio. Such assertions, which have nothing but a speculative interest, we need not at all deal with.

(*b*) *Staples of Export.*

When we enter into a close examination of the main items of our exports, we are again unable to find anything which fits in with the pessimistic declarations put forward by the opponents of the adopted ratio. The table on page 256 exhibits the course of exports since the year 1926–7 and compares them with the pre-war average.

[1] *Capital*, September 20th, 1928, p. 614.
[2] P. 411.

TABLE.

	QUANTITY. (Units as shown against each item separately.)					VALUES (LAKHS OF RUPEES).				
	Pre-war Average.	1926-7.	1927-8.	1928-9.	1929-30.	Pre-war Average.	1926-7.	1927-8.	1928-9.	1929-30.
Jute, Raw (1,000 tons) ...	764	708	892	898	807	22,20	26,78	30,66	32,35	27,17
Jute Manufactures—										
Bags (No., in millions) ...	339	449	463	498	522	9,39	24,37	23,27	24,92	21,89
Cloth (yds., in millions) ...	970	1,503	1,553	1,568	1,650	10,75	28,45	29,94	31,63	29,69
Cotton, Raw (1,000 tons) ..	430	569	480	663	727	33,28	58,60	47,72	66,24	65,07
Cotton Manufactures—										
Twist and Yarn (million lbs.)	193	41	25	24	24	9,13	3,08	1,88	1,95	1,90
Piece-goods (million yds.)	90	197	169	149	132	2,07	7,27	6,13	5,31	4,62
Grain, Pulse and Flour—										
Rice (not in the husk) (1,000 tons)	2,398	2,035	2,152	1,765	2,298	25,66	32,96	33,64	25,99	31,28
Total (1,000 tons) ...	4,411	2,429	2,784	2,300	2,510	45,81	39,24	42,92	33,69	34,79
Seeds (1,000 tons)	1,453	838	1,210	1,328	1,195	24,37	19,08	26,69	29,62	26,46
Tea (million lbs.)	266	349	362	360	377	13,06	29,03	32,48	26,60	26,00
Hides and Skins (Raw) (1,000 tons)	78	51	64	66	53	10,31	7,18	8,81	9,56	7,98
Coal and Coke (1,000 tons)	825	645	635	641	688	75	81	76	72	72
Iron or Steel (1,000 tons) ...	42	353	453	528	648	22	1,60	2,01	2,35	2,87

If from the picture we leave out 1929–30, when chiefly under the stress of world-wide depression most of our exports have declined, we discern that there has been, generally speaking, a steady progress both in respect of quantity and value, so far as most of the important staples of our export trade are concerned. Raw jute achieved a new record in 1927–8 and went still further forward in the following year. The spell of prosperity, enjoyed by the jute mill industry till the present shadow of depression was cast over it, is strikingly revealed by the above figures. But for a slight setback in 1927–8, when depression in Japan and unsettled political conditions in China considerably reduced the outside demand, the progress of the raw cotton trade has been continuous and satisfactory. Exports of grain, pulse and flour, all kinds taken together, have shown a tendency to expand, the reversal in 1928–9 being wholly due to the sudden shrinkage of shipments of rice in face of bumper crops in Siam and Indo-China. The oilseeds trade and that in raw hides and skins have steadily ascended the path of recovery and until the present year a steady uninterrupted growth has characterized the course of both of them. Tea, it is at once evident, has had a succession of prosperous years, though in the end it has been hit by one of its recurring spells of over-production. The development of the iron and steel trade has been phenomenally great while coal and coke has tended to regain more and more of its pre-war trade which it had lost in preceding years. In 1926–7 exportation of coal from India was stimulated to a large extent by the shortage of coal supply on account of the British coal strike. It is, therefore, especially gratifying that in the following year, when the condition brought about by the British strike had passed off, the volume of the pre-war export was nevertheless almost fully maintained without any appreciable sacrifice in price.

To this general record of progress from the date of the passing of the currency legislation of 1927 until the set-out of the world slump, only the export trade in cotton manufactures forms a solitary exception. In view of our previous discussions on the point, no further remark is required to

account for the unfortunate plight of our cotton export trade. It may also be noticed that in some of the staples, *e.g.*, oilseeds, food grains, and hides and skins, the trade is yet below the pre-war standard. The arrested development, so far as the first two items are concerned, is the direct consequence of progressive diminution of exportable surplus *pari passu* with the steady growth of local consumption. In the case of hides and skins, the existing state of affairs is due to a number of causes. Changes of fashion in favour of lighter materials for footwear, increased costs of reconditioning as a consequence of the rise in industrial wages and increased consumption of meat in Europe, resulting in output of hides at comparatively lower prices, have all combined to considerably reduce the demand for Indian leather in recent years. Though we thus volunteer to offer explanations for the comparatively shrunken volume of a few items of our export trade, it must nevertheless be made clear that, so far as the consideration of the present issue is concerned, it is not at all necessary to do so. It is enough if we have shown clearly that the years subsequent to the stabilization of the exchange at 18d. have been years of progress and not of recession. Unfortunately in the present year (1929–30) the progress is not only retarded but every branch of national production is in the doldrums. It needs, however, no special investigation to show that bound up as India is in the web of fate with other nations, she is suffering from the inevitable effect of a universal slump of commodities generally, and agricultural products in particular.

(*c*) *Staples of Import.*

Having reviewed the chief articles of export, let us now turn to imports. The table on the next page displays the chief items of our import trade and shows against each head the total weight imported in 1913–4 and in each successive year from 1926–7 onward. Let us examine the figures carefully to see if there is anything which bears out the assertion frequently made in certain quarters.

While the writing on the following table is plain and unmistakable as to the fundamental fact of the gradual recovery

and progress of most of the items enumerated, nowhere, however, there is the faintest sign that the expansion has been alarmingly rapid.

In the article already referred to, Sir Purshotamdas takes recourse to circumlocution and in truth halts between two opinions in order somehow to maintain his obviously untenable viewpoint about the effect of the 18d. rupee. " The explanation," says he, " is that with the curtailment of the purchasing power of the bulk of the population, owing

TABLE.

	Pre-war average.	1926-7.	1927-8.	1928-9.	1929-30.
Cotton—					
Twist and Yarn, million lbs. ...	41·7	49	52	43·7	43·8
Piece-goods, million yds. ...	2617	1787	1973	1936	1919
Metals—					
Iron and Steel, 1,000 tons ...	808	845	1197	1169	972
Brass and Copper, 1,000 cwts. ...	613	846	769	797	579
Mineral Oil, Kerosene, million gallons ...	67	64	94	104	106
Salt, 1,000 tons ...	545	541	596	614	644
Sugar, 1,000 tons ...	727	923	823	937	1012
Woollen Piece-goods, million yards	22	15	18	16	12·5
Silk, million yards ...	26	19	21	21·8	22·9

to the fall in the returns on commodities, the import trade, even with the weighted average which the high ratio gives it, has not made much headway." In his opinion, " as regards the imports it is only the middle and upper classes with fixed monetary incomes who are able to buy more of imported articles of luxury or amenities of life," and that, " even in the imports, articles in general use, such as imported cloth, do not find ready sale."

Our reply in the first place is that if there is any external evidence of the curtailment of the purchasing power of the bulk of the population, it is manifestly attributable not to

exchange but to the disparity of prices between agricultural and manufactured prices, which is nothing peculiar to India but is a world-wide phenomenon. In the second place, as far as statistics of imported goods throw any light on the point, we discover not a tittle of evidence in support of the above allegation. No indication is to be had from the above figures that articles of common use, *e.g.*, salt, kerosene oil, brass and copper, and even cotton piece-goods, have as a class been more halting in their growth than such goods as sugar, silk and woollen piece-goods, consumed only by the wealthier people. On the other hand there is distinctly visible a most welcome sign of steady growth of the former category of imports. In most instances the increase has been even more remarkable than that of goods of middle and upper class consumption and except in cotton piece-goods the quantity imported is in each case higher than the pre-war normal.

As to cotton piece-goods, certainly mere figures of imports cannot give us any reliable indication of the changes in total consumption. We must take into account the large volume of domestic output, both handwoven and machine-made. On the principles adopted by the Tariff Board in the computation of similar statistics for earlier years, we have arrived at the following figures for the total Indian consumption of piece-goods since the year 1926–7. They are shown on page 261 in comparison with the corresponding figures for 1913–4 and 1925–6. We must, however, point out that on account of the absence of satisfactory data we have not in the computation of the above statistics found it possible to make proper allowance for stocks; but this omission, it must be admitted, is not likely to affect the accuracy over a number of years of the general conclusion which we have deduced.

Sir Purshotamdas specifically mentions cotton piece-goods as an instance of stinted consumption on account of stabilization of the rupee at a higher ratio. The subjoined figures will certainly dispose of this charge. They clearly show that since the establishment of the 18d. ratio the total consumption of piece-goods, instead of declining, has on the contrary steadily worked up towards the pre-war and higher

level. And on computation even the *per capita* consumption figure, assuming the usual rate of growth of population, seems clearly to indicate a gradual improvement as between 1925–6 and the following years. If, however, notwithstanding this perceptible recovery, the figure is not yet quite so high as in pre-war years, it is primarily because a too rapid multiplication of population tends to keep it down at a low level of material comfort.

Year.	Total consumption, million yards.
1913-4	5,146
1925-6	4,479
1926-7	5,152
1927-8	5,439
1928-9	4,732
1929-30	5,582

IV

CONCLUSION

Thus the conclusions arrived at in course of the review, based upon quite unequivocal evidence, do not in the least bear out the assertion that the " 18d. ratio has led to a veritable disaster in the trade, commerce and industries of the country as also in its agriculture."[1] Confronted, therefore, with the logical presentation of the whole case, an impartial observer, who has the disposition to understand the truth, cannot but wonder that quite a number of men of light and leading with wide experience in large business and thorough training in economic principles should constantly be obsessed with the incubus of the 18d. ratio and should further attempt to ram down the throats of the gullible public a deleterious theory entirely unfounded in fact. It is a pity that the echo of this acrimonious controversy has not yet

[1] Extract from a letter of the Secretary, Indian Merchants' Chamber to the Secretary, Govt. of India, Finance Dept.

melted away on the distant horizon of the past. Yet no sensible man can deny that the "good old" 16d. ratio is to-day as dead as a leaf in a lump of coal.

The truth of the matter is that behind the insistent demand for reversion to the pre-war ratio, there lurk, as Sir Basil Blackett stated in 1926, the usual inflationary tendencies. In the words of Sir Jehangir Coyajee: "In fact, the real issue in the controversy is that of inflation; and that fact accounts in the main for the vitality of the controversy. For, if adjustment of prices was indeed the real issue, few would be found to assert in the year (1929) that things had not adjusted themselves in a preponderant degree to a ratio which had held the field for five years, and the controversy would have died a natural death before now. But the ratio controversy derives its whole vigour and momentum from the inflationist aspirations behind it; it is the Indian counterpart of the struggle over readjustment of price-levels to normal conditions which has been the most important economic movement of the post-war epoch in most countries of the world."

The dangers of inflation need not, however, be emphasized, especially for such a country as India. "Quite as good business can be done," says Sir Josiah Stamp, "on one price-level as on a level twice the height, provided it is a stable level and all the factors have been fairly adjusted to that level. It is the transition from the one to the other, without an even or proportionate change in all the factors, that works the mischief." We shall simply ask every inflationist, concealed or avowed, to remember this elementary truth.

One word more is probably needed. "Moreover, the number of countries which have returned or are returning to the gold standard is some guarantee that, with proper co-operation and management on the part of the various central banks of the world, a more even distribution of the available gold will be attained in time, so that world price-levels will be less dependent upon the policy and actions of a single currency authority than they are supposed to be at present." Thus wrote the Indian Currency Commission in

the middle of 1926. Unfortunately the expectation has not been realized. On account of the concentration of gold, to an extent unknown before in history, at two centres, U.S.A. and France, the gold standard has not in recent years functioned properly. The world is thus once again in the throes of a deflation which in the main has been brought about by the restrictive credit policy of the U.S.A. and by the uneven distribution of gold, already referred to.

It has been argued, if, in the face of this world situation, it will not be a better course for India to allow the exchange to absorb the shock rather than force the country through all the catastrophic disturbances of a period of falling prices. The suggestion is not unjustified. In the larger interests of India the risk of exchange fluctuations in spite of all its harmful consequences on foreign trade is well worth taking if thereby a fresh period of unstable pricel-evels can be avoided. The question, however, is whether such a policy of stabilizing prices can be pursued with success, especially in India, where there obviously exist special difficulties in the way. The complex nature of the problem will be readily admitted, at any rate by everybody who is conversant with recent literature on price stabilization. And it is clearly manifest that the construction of a representative and reliable index figure, as a certain guide to monetary policy, is by no means an easy task. Our present difficulties are largely traceable to the prevalence of an acute business depression all the world over, and we all know that slumps in particular are " difficult and perhaps to some extent impossible to control " by any such policy. Again, quite apart from the numerous inherent difficulties which a price stabilization policy everywhere involves, in India particularly the attempt is likely to be frustrated by the distrust and suspicion which it will probably arouse among the uninstructed public. Lastly, whatever promise of success this so-called scientific method of price stabilization may possess, the fact remains that the experiment has yet nowhere been tried to test its outcome. It will be well to seriously ponder if we must rush in where others have hitherto feared to

tread. We must also realize that though India may by recourse to the above expedient shelter herself from the full operation of deflationist tendencies abroad, it is not certainly to be expected that eventually she can remain altogether unaffected in the event of a persistent fall of the world price-level.

POSTSCRIPT

We live in an age of rapid transition. In the economic sphere many and important changes have occurred since the completion of the present work. Of them, the most outstanding is the suspension of the gold standard in nearly every country of the world.

When, in September, 1931, Great Britain led the way by devaluing its currency in terms of gold, India promptly followed the example. The break between the rupee and gold has doubtless proved a welcome change. It has offered India, as every other country which has left the gold standard, an escape from the vicious spiral of monetary deflation to which the world was condemned by its adherence to gold. On comparison of the trade figures of the gold standard and non-gold standard countries respectively, it is found that, as compared with the corresponding period of the previous year, the latter have obtained, especially in regard to exports, a larger percentage share of the world trade during the first half of 1932.[1]

The rupee has not, however, been allowed to drift for itself, but has been linked to sterling at 18d. India's oversea trade, the larger percentage of which happens to be with sterling standard countries, has thus been saved from the maleficent influence of a new era of chaotic exchange fluctuations. If, however, sterling has not provided that " certain and trusted rallying point " for the currencies which abandoned the gold standard in the crisis of 1931, it " has certainly behaved better than gold." " In the gold standard world, the forces of deflation have continued to hold sway, while in the sterling area they have to some extent been checked."[2] The choice of a parity lower than 1s. 6d., that is, deliberate depreciation of the rupee even further than sterling, possesses, no doubt, a strong popular appeal but has been rightly avoided as inadvisable. In the first place, it would have at a most critical moment added to the heavy sterling obligations of the Government of India. In the second place, " although we should not refuse to wink at a little judicious use of the money pump, if the tyres of industry seemed to be sagging unduly," any attempt to enter into an international competition in currency devaluation, it must be

[1] *Vide Statist*, October 22, 1932, p. 529.
[2] *Ibid.*, November 12, 1931, p. 631.

borne in mind, would certainly have acted as a boomerang and hence deserves nothing but our stern condemnation. We have learnt the truth too well to forget that " under the guise of the apparent benefit which it confers on exporting interests," depreciating currency " acts as a much more insidious poison on the general body economic." On the whole, therefore, it would seem that the change of the Indian currency from the gold to the sterling standard must have reacted favourably on her trade and commerce, though the consequence may have been hidden from general observation by the overhanging cloud of depression.

Unfortunately there have followed, as a sequel to the general abandonment of the gold standard, a series of restrictive measures destructive of the very fabric of international trade. Control of foreign exchange dealings, import quotas, and even prohibition now contribute powerfully to the already operating detrimental influences making for rapid diminution of the world's interchange of commodities. One has only to read the latest reports of the Indian Trade Commissioner at Hamburg to realize how artificial barriers of the above kind are shutting out Indian exports from Austria, France, Germany and many other countries. In the circumstances, it is probably no matter for surprise that our export trade, already on the decline under the pressure of a trade depression, has gone down still further from Rs. 318 crores in 1929-30 to Rs. 226 crores in 1930-31 and Rs. 161 crores in 1931-32, that is, has fallen to nearly half its value in the course of two years. With the loss of the export trade, the import trade has simultaneously declined, especially since India's capacity to buy on the foreign markets is being considerably handicapped by higher and higher tariffs and by a level of import prices disproportionately higher than export prices. The value of private merchandise imports recorded in 1931-32, amounting to Rs. 126 crores, shows a fall of Rs. 38 crores or of 23% as compared with the preceding year and of Rs. 114 crores or of 47% as compared with 1929-30. The decline would have been greater still, were it not for the fact that the premium on gold obtainable since India severed herself from its bondage stimulated its exports and to a large extent converted barren hoards into a new source of payments for imports. Shipments of gold from India have, however, provoked considerable criticism, but we cannot examine the point here fully, for it would involve consideration of other aspects of the problem, extending far beyond the limits of the present note.

The absence in the world to-day of a stable international standard reinforces the urgency and importance of a careful investigation of the influence of exchange on the course of our external trade. The heavy depreciation of the yen, there is no

reasonable doubt, operates for the time being to the advantage of Japan, and it is at the present moment the only oppressive influence of its kind which by interfering with mutual competitive conditions exercises a baneful influence on India's trade and industry. Of this fact, ample statistical proof is easily obtained, but it is too perspicuous and well recognized a truth to require any such demonstration. Nor does space permit us to do so. The unedifying complication which has thus been caused has led to the passing of anti-dumping legislation in India and the necessary safeguard is now being provided to whatever branch of trade happens to be threatened with unfair competition from abroad. The exigencies of the moment doubtless require a drastic remedy more or less on the lines actually adopted. But the fundamental truth remains that the Japanese competition derives its chief strength not from the stimulative influence of an under-valued currency, but from a less transient and more intractable cause, namely, superior business efficiency. It is only by improving and modernizing our own industrial methods, by rationalization where necessary, and by the practice of extensive economies in every direction possible, that we can meet with success the growing onset of analogous Japanese industries.

Of incidental interest it is to note that nothing has occurred either in India or elsewhere during the present period of currency depreciation, which in any way contradicts our findings under similar circumstances. Recent experiences have only strikingly exemplified what we have stressed in the foregoing pages—how, on account of multitudinous forces pulling in different directions, our theoretical expectation in respect of the influence of exchange on trade is in practice seldom realized during the short period, and how the widely-popular notion about falling exchange as a mysterious device which quickly opens the door to economic prosperity is nothing but a dangerous delusion.

The serious slump in the price of silver during the last few years has forced a renewal of the discussion of the old silver question with the different aspects of which the world was only too familiar during the seventies of the last century. India has not been on a free silver standard since 1893, so that the fall in the gold price of silver does not, except in special cases we shall presently examine, affect her position as a trader on the world market. The vast supply of hoarded silver which exists in the country is often referred to in this connection; the depreciation of its market value, it is alleged, has curtailed the buying capacity of the masses and is consequently checking the growth of India's foreign trade. The loss of purchasing power thus deplored is indeed more imaginary than real. For, in the first place, the hoards, as the very name suggests, represent

potential buying power which in normal times never appears on the commodity market. And secondly, if under pressure of dire necessity the silver bars and ornaments have to be exported for purchase of commodity imports just when the gold value of silver is fluctuating downwards, there need not occur any national loss. India holds in gold hoards a larger value than it holds in silver hoards,[1] and hence any loss sustained on the forced sale of silver is more than compensated for by the increased value of gold hoards.

There are, however, cases where a shift in the ratio of gold and silver is likely to react on India's external trade. In so far as she carries on commercial transactions with silver standard countries, a declining price of silver, it is evident, not only signifies the inconvenience of a fluctuating rate of exchange for her, but also tends to encourage exports from and discourage imports to the latter. The trade returns, as given below, are, however, interesting in the light which they cast upon the rather elusive character of the influence of exchange on trade in the actual course of events.

	1928–29	1929–30	1930–31	1931–32
		(In Lakhs of Rupees.)		
China (exclusive of Hongkong and Macao):				
Imports from ...	4,32	4,10	3,33	2,79
Exports (of Indian produce) to ...	9,44	13,02	13,21	7,80
Persia:				
Imports from ...	3,82	3,72	2,72	2,76
Exports (of Indian produce) to ...	1,59	1,61	1,23	1,09

China and Persia are among the important silver standard countries with which we have commercial intercourse, and the figures above exhibit our trade with them. It is apparent that, so far from imports having increased, they have, in fact, heavily declined, while our exports can hardly be said to have received any check. If, in 1931–32, our exports to them show a sharp downward fluctuation, we need only remember that in the same year we have lost more business with many gold standard countries.

We have next to consider if, as is sometimes stated, the

[1] *Vide Journal of Political Economy*, August, 1931, p. 437.

present drastic decline in the price of silver has, by reducing the external purchasing power of the silver standard countries, had "cataclysmic repercussions" upon the world's foreign trade. For, if this be at all true, India must feel the reactions of the conditions of world trade as an inescapable consequence, even though she may for the present be free from any direct injury in respect of her trade with silver countries. It is easily demonstrable that nothing can be a more curious phantasy than to regard the distress in the silver countries as a major factor in the depressed state of international commerce to-day. China is the most and, in fact, the only important country with silver as the basis of its currency, and the quantum of its foreign trade represented no more than 2·05, 2·31 and 2·12 per cent. of the total world trade in 1927, 1928 and 1929 respectively.[1] "The complete elimination of Chinese foreign trade would thus make much less difference to the total world situation than might be thought at first sight," and yet, we must remember, China has not altogether ceased buying from abroad, but has in common with the rest of the world merely reduced her foreign purchases. It is significant further to note that, if there has been an absolute decline in the imports of China, her exports have been shrinking even more rapidly—another "wicked little fact" which lends very little support to the vague assumption that it is the fall in the gold price of silver which has crippled China's buying power.

The silver situation raises many other complicated issues, which we need not discuss in a treatise on the development of Indian foreign trade. The cry that "something must be done about silver" should not go unheeded, though we have observed that "there is no great cause for alarm in the decline of the gold value of silver except as this expresses a rising tendency in the commodity value of gold." The way out of the present entanglement is, no doubt, stabilization of the price of silver, but certainly not at a level which by its height will subject the silver standard countries to the same depressing influence as operates in the gold standard countries to-day. The problem has in recent years evoked quite a number of schemes, but an examination of their comparative merits and demerits is obviously not relevant to our present topic. For the same reason, we refuse to enter into the bimetallism controversy which, like the phœnix, has now risen from the ashes.

Comment must, however, be made on the recent silver pact which is the outcome of the negotiations among the respective Governments concerned at the World Economic Conference in London. For what is embodied in the pact is no mere pious

[1] *Vide* Gregory, *The Silver Situation*, p. 21.

resolution but a sincere international agreement which, with every chance of its subsequent ratification, will, it is hoped, be soon put in operation and, in the opinion of not a few responsible persons, " prove one of the greatest stimulants to world trade yet developed." If the analysis we have presented above of the effect on world trade of the present low price of silver be not incorrect, it is difficult to see how such expectations can be fulfilled. Whatever improvement may temporarily result in the purchasing power abroad of silver countries as the consequence of a higher price of silver will make little difference to world trade as a whole, while it is more likely that the net result of such a policy will rather be to the distinct disadvantage of the silver countries themselves. For few will dispute that " a falling exchange value of a currency, if an evil, is certainly an evil of a very much lower order of magnitude than a rising commodity value for that currency." It is, however, more important to point out the makeshift character of the pact itself which, in the absence of any definite provision for a fixed price, can hardly be called a stabilization project, more especially since no one can be quite certain how the policy, the burden of which is to be shouldered by the Governments only, is going to react upon market supply and demand.

While on this subject, we have to digress here, though with extreme reluctance, on a side issue. Some among the silver enthusiasts have gone so far as to read into the present silver situation a significant commentary on the supreme unwisdom of the closure of the Indian mints in 1893. The apprehension of a quite gratuitously assumed disaster descending upon India from any persistence of the present low value of silver, has led them to suggest the re-establishment of a silver standard in our country. It seems necessary, therefore, to modify our statement which occurs at the end of Chapter VIII of this book, though at the time of writing it was perfectly justified on the ground that no more than a single witness had appeared before the Chamberlain Commission to advocate, subject, however, to an important reservation, open mint for silver in India, and there had, indeed, been none of this persuasion before the Hilton Young Commission. That the recent silver depression can at this distance of time afford an occasion for criticism and denunciation of a policy pursued over a quarter of a century, with clear benefits to national economic progress, seems to us exceedingly strange. Such champions appear also to take singularly little account of the evidence which even an elementary analysis of the situation reveals. The effect of the low price of silver, either on the world at large or on India in particular, has, we have previously noticed, been so slight that

any remonetization of silver seems clearly not necessary in the interests of India.

The broad fact is obvious enough. The world economic *malaise* had been occasioned much more by the appreciation of gold than by any shift in the gold-silver ratio. The present heavy fall in the price of the inferior metal is itself in a preponderant degree a consequence rather than a cause of that depression. The failure of the World Economic Conference to tackle this vital problem, for the solution of which we had at one time hoped, or in any other direction to give " the trading community a clear lead by tangible proof of its determination to free international trade from its fetters," shows that we wait to learn our lessons at too high a price in the school of very bitter experience.

There is one other recent development to which a brief reference must be made here. We allude to the Ottawa agreement, which has led to reciprocal tariff readjustments between India and other members of the British Empire extending preferences to each other. We do not, however, feel confident to express any definite opinion on so contentious a subject, except in a fuller and more detailed enquiry which, for ostensible reasons, cannot be attempted here. If we are to record our first impressions which we have gathered from a mere study of other works on the question, for our part we have come to believe that the incidence of the Ottawa tariff arrangements will be prejudicial to India's foreign trade development. We can hardly expect to obtain any material advantage from preference extended to our exports either at present or in the future, while it is very probable that we shall lose our custom in outside markets through enhancement of competition, curtailment of purchase and retaliation. On the other hand, in regard to imports our own preference which we have granted will cost us heavily through relatively higher prices we shall be required to pay both immediately and in the long run. Secondly, the agreement, it seems quite clear, will not in any way assist the recovery of world trade. So that India will have to go even without any indirect benefit which she, along with all other countries, might have enjoyed from the revival of international commerce, in case it were promoted. In a word, although our conditions of trade have considerably changed since the days of Lord Curzon's Viceroyalty, the conclusion reached in 1903, that our country had very little to gain and a good deal to lose or to risk from Imperial reciprocity agreements, seems to hold still substantially true, notwithstanding facile generalization to the contrary by so-called experts from a rather superficial examination of trade statistics. Whether or not we are right in maintaining the above view, one thing, however, is open to

no question. We cannot rely indefinitely on preferences to guarantee us a secure market. No such tinkerings will carry us very far. They may at best slightly assuage the pain from which we are at present suffering. Only a resolute policy of reconstruction and of improvement can remove the deep-seated, long-standing defects in our economic structure which threaten the recovery and development of India's foreign trade.

APPENDIX

TABLE I

FREIGHTS BY STEAMER, CALCUTTA TO LONDON, PER TON.[1]

	May to August											
	Wheat.						*Linseed.*					
	From			To			From			To		
	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
1873	2	7	6	3	0	0	3	5	0	3	17	6
1874	1	0	0	2	0	0	2	7	6	2	17	6
1875	2	2	6	3	0	0	2	17	6	3	5	0
1876	3	0	0	3	7	6	3	0	0	3	5	0
1877	2	17	6	3	0	0	3	0	0	3	5	0
1878	0	12	6	1	5	0	1	7	6	1	10	0
1879	1	2	6	1	7	6	1	5	0	1	12	6
1880	2	12	6	3	5	0	2	15	0	3	7	6
1881	2	12	6	3	2	6	2	17	6	3	7	6
1882	2	1	3	2	7	6	2	5	0	2	12	6
1883	1	17	6	2	2	6	2	0	0	2	2	6
1884	1	5	0	1	7	6	1	8	9	1	12	6
1885	1	2	6	1	17	6	1	5	0	1	17	6
1886	1	2	6	1	10	0	1	2	6	1	12	6
1887	1	1	3	1	8	9	1	5	0	1	10	0
1888	1	5	0	1	6	3	1	6	3	1	13	9
1889	1	5	0	1	6	3	1	5	0	1	12	6
1890	1	0	0	1	7	6	1	3	9	1	7	6
1891	1	7	6	2	1	3	1	10	0	2	2	6
1892	0	10	0	0	17	6	0	11	3	1	0	0
1893	0	17	6	1	0	0	1	0	0	1	5	0
1894	0	17	6	1	5	0	1	3	9	1	7	6
1895	0	17	6	1	0	0	1	0	0	1	2	6
1896	0	7	6	0	12	6	0	7	6	0	15	0
1897 ... say	0	10	0	0	15	0	0	11	3	0	15	0

[1] See *Report of Indian Currency Committee*, 1898, C9376, App. II, p. 189.

TABLE II

AVERAGE MARITIME FREIGHTS

A.—To Europe and America

Articles.	Freight to.	Rate per.	1913. £ s. d.	1914, Jan.-July. £ s. d.	1914, Aug.-Dec. £ s. d.	1915. £ s. d.	1916. £ s. d.	1917. £ s. d.	1918. £ s. d.
Calcutta	London *via* Canal	ton							
Jute	,,	,,	1 10 0	1 1 3	1 16 1	4 3 0	8 10 8	16 3 3	19 7 6
Tea	,,	,,	1 15 0	1 15 0	1 19 1	2 4 1	2 7 6	6 8 5	15 0 0
Linseed	New York	,,	1 12 11	1 5 7	1 15 3	4 6 5	—	20 0 0	18 9 0
Hides	London *via* Canal	,,	2 10 0	2 10 0	2 18 1	5 1 10	13 9 7	22 10 0	33 0 0
Bombay	London								
Wheat	,,	,,	0 17 6	0 11 6	0 17 4	2 10 6	5 17 11	11 4 0	—
Seed	,,	,,	0 17 6	0 12 11	0 17 0	2 8 9	5 8 4	11 1 0	10 6 6
Cotton	Liverpool	,,	0 18 0	0 12 7	0 16 6	2 15 6	5 7 6	12 14 0	15 5 5
Madras	London	ton of							
Indigo	,,	50 c. ft	2 12 6	2 12 6	3 1 5	5 1 8	9 12 6	14 13 0	16 0 0[1]
Coffee (in bags) ...	,,	18 cwt.	1 10 0	1 10 0	1 15 1	3 14 2	9 13 4	14 17 0	16 0 0[1]
Ground nuts ...	Marseilles	20 cwt.	1 11 0	1 3 11	1 10 1	4 7 1	9 9 6	—	—
Karachi	Liverpool	ton							
Wheat	,,	,,	0 17 9	0 12 7	0 17 4	2 15 11	5 9 7	11 10 8	12 11 10
Wool	,,	,,	1 2 6	0 17 10	1 5 0	3 11 1	7 8 3	12 2 6	7 10 0

[1] Quotations are nominal. Tonnage is scarce and practically no space is available except for priority and preferential cargoes.

B.—To Eastern Ports

(i) Of a British Steamship Company

Articles.	Freight to.	Rate per.		1913.		1914.		1915.		1916.		1917.		1918.	
				Rs.	as.	Rs.	as.	Rs.	as.	Rs.	as.	Rs.	as.	Rs.	as.
Measurement goods ...	Singapore	Ton	50 c. ft.	10	0	10	0	15	0	35	0	35	0	75	0
Dead weight goods ...	,,	,,	20 cwt.	10	0	10	0	15	0	25	0	35	0	75	0
Gunnies	,,	,,	50 c. ft.	5	0	5	0	15	0	30	0	30	0	70	0
Rape cake	,,	Bag	2 mds.	0	10	0	10	0	12	1	7½	1	7½	2	3¼
Pig-iron	,,	Ton	20 cwt.	5	0	6	8	8	8	30	0	30	0	45	0
Measurement goods ...	Hong-Kong	,,	50 c. ft.	10	0	10	0	25	0	55	0	55	0	100	0
Dead weight goods ...	,,	,,	20 cwt.	10	0	10	0	25	0	55	0	55	0	100	0
Gunnies	,,	,,	50 c. ft.	5	0	5	0	25	0	45	0	45	0	90	0
Rape cake	,,	,,	20 cwt.	5	0	6	0	16	8	—		—		40	0
Pig-iron	,,	,,	20 cwt.	6	0	6	8	25	0	45	0	45	0	75	0
Measurement goods ...	Kobe	,,	50 c. ft.	15	0	15	0	30	0	85	0	85	0	130	0
Dead weight goods ...	,,	,,	20 cwt.	15	0	15	0	30	0	85	0	85	0	130	0
Gunnies	,,	,,	50 c. ft.	10	0	10	0	30	0	75	0	75	0	120	0
Rape cake	,,	,,	20 cwt.	7	0	6	8	20	0	35	0	30	0	50	0
Pig-iron	,,	,,	20 cwt.	7	8	7	8	30	0	55	0	30	0	75	0

(ii) Of a Subsidized Non-British Far East Steamship Company

Articles.	Freight to.	Rate per.	1914.	1915.	1916.	1917.	1918.
			Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.
Measurement	Singapore	Ton 50 c. ft.	10 0	12 8	17 8	30 0	50 0
Dead weight (rice)	,,	,, 20 cwt.	4 8	5 8	10 0	15 3	50 0
Gunnies	,,	,, 50 c. ft.	5 0	7 0	20 0	25 0	50 0
Rape cake	,,	,, 20 cwt.	4 8	5 8	10 0	15 3	50 0
Pig-iron	,,	,, 20 cwt.	6 0	6 8	7 8	20 0	30 0
Measurement	Hong-Kong	,, 50 c. ft.	12 0	15 0	27 8	50 0	80 0
Dead weight (rice)	,,	,, 20 cwt.	6 0	8 0	16 8	21 15	80 0
Gunnies	,,	,, 50 c. ft.	5 0	8 0	27 8	45 0	80 0
Rape cake	,,	,, 20 cwt.	6 0	8 0	16 8	21 15	80 0
Pig-iron	,,	,, 20 cwt.	6 0	7 0	9 8	25 0	50 0
Measurement	Kobe	,, 50 c. ft.	12 0	20 0	30 0	50 0	100 0
Dead weight (rice)	,,	,, 20 cwt.	14 0	17 0	27 8	40 8	100 0
Gunnies	,,	,, 50 c. ft.	8 0	12 0	35 0	50 0	100 0
Rape cake	,,	,, 20 cwt.	6 0	7 0	20 0	25 0	90 0
			s. d.	s. d.	s. d.	s. d.	s. d.
Pig-iron	,,	,, 20 cwt.	15 0	15 0	15 6	40 0	80 0

TABLE III[1]

Year.	Average price of bar silver per oz. (Pixley and Abell).	Average rate of exchange per rupee.
	d.	s. d.
1872–3	$60\frac{5}{16}$	1 10·754
1873–4	$59\frac{1}{4}$	1 10·351
1874–5	$58\frac{5}{16}$	1 10·221
1875–6	$56\frac{7}{8}$	1 9·645
1876–7	$52\frac{3}{4}$	1 8·491
1877–8	$54\frac{13}{16}$	1 8·790
1878–9	$52\frac{9}{16}$	1 7·761
1879–80	$51\frac{1}{4}$	1 7·961
1880–1	$52\frac{1}{4}$	1 7·956
1881–2	$51\frac{11}{16}$	1 7·895
1882–3	$51\frac{5}{8}$	1 7·525
1883–4	$50\frac{9}{16}$	1 7·536
1884–5	$50\frac{5}{8}$	1 7·308
1885–6	$48\frac{5}{8}$	1 6·254
1886–7	$45\frac{3}{8}$	1 5·441
1887–8	$44\frac{5}{8}$	1 4·899
1888–9	$42\frac{7}{8}$	1 4·379
1889–90	$42\frac{11}{16}$	1 4·566
1890–1	$47\frac{11}{16}$	1 6·089
1891–2	$45\frac{1}{16}$	1 4·733
1892–3	$39\frac{1}{16}$	1 2·984

[1] Average price of bar silver taken from Fowler, App. No. 12, p. 144 and average rate of exchange from *Index Numbers of Indian Prices* (1861–1926), p. 18.

TABLE IV[1]

SHOWING EXCHANGE MOVEMENTS AND VARIATIONS OF CHIEF EXPORTS.

Years.	Average Rate of Exchange.	Cotton, Raw.		Opium.		Seeds.	
		Q.	V.	Q.	V.	Q.	V.
1868-9 ...	100	100	100	100	100	100	100
1869-70 ...	100·30	79·53	94·69	118·31	109·33	109·09	115·74
1870-1 ...	96·97	82·79	98·99	114·09	100·82	169·09	176·57
1871-2 ...	99·69	115·99	105·57	124·56	124·96	128·62	136·79
1872-3 ...	98·09	70·84	69·59	110·61	106·83	69·75	75·61
1873-4 ...	96·35	72·24	65·57	118·38	106·04	111·26	118·88
1874-5 ...	95·51	89·91	75·72	126·40	111·79	152·46	162·21
1875-6 ...	93·22	80·44	65·91	117·87	104·23	263·70	273·82
1876-7 ...	88·41	73·17	58·29	174·47	115·98	240·51	266·65
1877-8 ...	89·63	55·56	46·57	123·83	115·69	305·87	368·98
1878-9 ...	85·33	47·63	39·28	121·67	121·49	180·99	234·73
1879-80 ...	86·05	63·39	55·31	140·76	133·92	181·86	239·69
1880-1 ...	86·03	72·91	65·72	122·99	127·16	258·59	320·43
1881-2 ...	85·77	90·38	74·15	119·19	116·24	263·08	304·01
1882-3 ...	84·17	99·06	79·68	122·47	107·35	239·97	361·22
1883-4 ...	84·22	96·12	71·47	122·69	105·60	435·63	505·59
1884-5 ...	83·23	81·39	65·98	115·51	101·75	458·27	539·02
1885-6 ...	78·69	67·29	53·51	117·35	100·37	434·68	500·05
1886-7 ...	75·19	87·27	66·88	127·86	103·57	399·26	462·33
1887-8 ...	72·85	86·29	71·53	120·20	94·13	403·60	471·16
1888-9 ...	70·61	85·60	74·67	117·12	98·25	390·81	479·44
1889-90 ...	71·41	101·51	92·66	113·62	94·58	396·49	532·74
1890-1 ...	77·98	95·12	82·06	114·41	86·59	371·41	468·36
1891-2 ...	72·13	72·92	53·37	116·82	89·40	480·99	612·02

[1] From Indian Currency Com., 1893, [C—7060—II], App. II.

TABLE SHOWING EXCHANGE MOVEMENTS AND VARIATIONS OF CHIEF EXPORTS—*continued.*

Rice		Wheat.		Cotton Manufactures, including twist and yarn.	Jute, raw.		Tea.	
Q.	V.	Q.	V.	V.	Q.	V.	Q.	V.
100	100	100	100	100	100	100	100	100
69·03	71·72	28·39	33·34	96·94	99·95	104·89	111·10	109·83
104·62	99·83	90·21	105·14	105·24	111·61	136·24	115·26	115·85
112·58	106·84	231·26	238·60	88·94	182·36	217·63	152·09	150·67
151·49	136·81	143·03	169·80	105·80	210·51	218·96	156·10	161·72
131·66	131·80	637·41	838·00	119·07	182·16	181·62	169·35	178·36
113·11	113·17	389·74	497·62	121·76	163·33	171·62	186·35	199·62
132·77	126·13	911·41	917·71	127·25	154·79	148·28	213·95	221·99
129·49	138·20	2027·95	1982·22	144·44	134·77	139·36	243·25	266·34
119·84	165·06	2313·47	2909·85	171·30	162·03	185·96	293·17	311·24
138·19	213·23	383·59	526·67	192·70	178·98	208·79	303·13	322·22
144·15	199·55	799·15	1138·38	204·35	198·61	230·99	334·54	312·29
177·32	215·09	2702·32	3319·10	231·97	172·72	207·94	408·69	315·11
187·87	197·30	7224·09	8980·93	248·94	223·28	265·89	420·34	368·27
203·28	201·29	5152·36	6165·25	296·13	307·67	309·05	507·25	380·06
175·85	198·58	7623·54	9007·50	323·85	208·64	242·75	526·76	420·25
143·41	170·80	5753·89	6395·32	342·33	248·79	246·39	567·48	420·57
183·54	219·60	7648·05	8105·84	379·94	231·37	230·21	606·84	446·98
174·80	209·85	8081·73	8734·29	436·95	246·96	257·40	701·70	496·38
185·55	220·66	4914·37	5632·21	518·40	286·70	319·28	775·09	539·00
150·51	187·97	6392·97	7617·74	611·37	313·74	417·42	865·31	556·35
176·23	240·10	5010·22	5865·35	639·90	304·90	456·68	919·94	553·54
227·37	320·07	5198·36	6118·29	708·82	356·34	401·82	959·87	559·52
220·36	317·89	11001·44	14562·82	669·19	253·66	361·99	1075·75	638·76

TABLE SHOWING EXCHANGE MOVEMENTS AND VARIATIONS OF CHIEF EXPORTS—*continued.*

Indigo.		Hides and Skins.		Wool.		Coffee.	
Q.	V.	Q.	V.	Q.	V.	Q.	V.
100	100	100	100	100	100	100	100
98·87	109·82	123·16	134·99	65·35	73·64	75·50	77·62
104·01	110·32	146·80	161·29	95·29	104·49	70·76	72·33
116·34	128·05	180·52	201·61	118·92	141·27	118·89	123·14
116·23	118·42	207·10	233·21	102·10	134·25	88·09	102·25
116·91	122·86	173·78	208·98	102·89	150·64	86·04	133·76
82·12	89·03	163·57	213·73	105·15	150·50	73·33	116·67
111·28	99·35	175·18	235·05	118·37	172·91	87·53	145·70
101·19	102·38	178·35	239·49	120·57	171·84	71·28	120·74
121·57	120·75	206·43	299·90	115·79	150·64	69·98	119·95
105·89	102·61	191·17	247·23	136·28	172·90	80·21	138·13
101·74	101·85	219·69	298·38	140·57	185·07	84·61	145·67
117·81	123·42	210·75	298·16	126·26	182·39	86·88	142·96
151·57	155·82	223·36	315·27	131·21	162·39	82·49	130·30
142·17	135·22	239·01	354·77	129·36	156·25	85·31	126·59
169·94	160·38	253·71	372·48	123·74	153·16	85·40	131·16
155·87	140·61	262·82	394·01	125·19	154·86	80·31	114·90
133·55	130·73	291·72	425·91	153·62	187·93	88·29	121·74
139·50	127·57	286·94	411·00	165·49	209·22	87·88	135·12
140·76	134·45	278·89	387·93	172·04	232·91	64·59	137·35
143·59	136·45	291·62	378·80	172·21	247·47	86·12	168·99
158·37	133·49	278·78	361·11	187·68	277·21	56·64	133·81
119·37	106·20	294·87	375·03	167·38	248·21	55·08	130·57
126·33	111·07	—	413·92	174·84	256·27	74·11	180·52

SELECT BIBLIOGRAPHY

The annexed list contains those referred to in the body of the text as well as those consulted but not directly referred to.

A.—BOOKS, PAMPHLETS AND WORKS OF REFERENCE

Ambedkar, A. P. ... *The Problem of the Rupee* (1922).

Anstey, V. ... ... *The Economic Development of India* (1929).
The Trade of the Indian Ocean (1929).

Ashley, P. ... ... *Modern Tariff History* (1920)

Atkinson, F. ... ... *A Review of the Effect of Low Exchange on the Export Trade of India* (1892).

Balkrishna ... ... *Commercial Relations between India and England* (1601 *to* 1757) (1924).

Banerjea, P. ... ... *Fiscal Policy in India* (1922).
A Study of Indian Economics (1927).

Bastable, C. F. ... *The Commerce of Nations*, revised by T. E. Gregory (1923).
The Theory of International Trade, with Some of its Applications to Economic Policy (1903).

Bengal Chamber of Commerce ... ... *Reports* (1850 *onwards*).

Bombay Chamber of Commerce ... ... *Reports* (1850 *onwards*).

Bowley, A. L. ... ... *A Short Account of England's Foreign Trade in the Nineteenth Century* (1905).

Britain's Industrial Future, being the Report of the Liberal Industrial Enquiry (1928).

Brown, H. G. ... ... *International Trade and Exchange* (1914).

Burton, T. E. ... ... *Financial Crises and Periods of Industrial and Commercial Depression* (1902).

Cambridge History of India, Vol. I, Chap. VIII. Ed. E. J. Rapson (1922).

Cassel, G. ... ... *Money and Foreign Exchange After* 1914 (1922).
The World's Monetary Problems
Two Memoranda (1921).
The Monetary Character of the Present Crisis. (An Address delivered in the Hudson's Bay Sale Room on May 27th, 1931.)

Chablani, H. C. ... *Indian Currency and Exchange* (1924).

Chatterton, Sir A. ... *Industrial Evolution in India* (1912).

Chesney, G. C.... ... *Indian Polity* (1894).

Clapham, J. H. ... *An Economic History of Modern Britain* (1930).
The Economic Development of France and Germany, 1815–1914 (1928).

Conant, C. A. ... ... *Principles of Money and Banking*, Vol. I (1905).

Connel, A. K. ... ... *The Economic Revolution of India and the Public Works Policy* (1883).

Coyajee, Sir J. C. ... *Indian Fiscal Problems* (1924).

Cuthbertson, W. S. ... *Commercial Policy in War Time and After* (1919).

Donald, R. ... ... *Trade Control in War* (1916).

Dutt, R. ... ... *The Economic History of India under Early British Rule* (1906).
The Economic History of India in the Victorian Age (1906).

Encyclopædia Britannica (1922 edition).

Fayle, C. E. ... ... *Seaborne Trade*, 3 vols. (1920–24).

Fisher, I. ... ... *The Purchasing Power of Money* (1911).
The Rate of Interest, its Nature, Determination and Relation to Economic Phenomena (1907).

Fitzgerald, P. H. ... *The Great Canal at Suez*, 2 vols. (1876).

Fuchs, C. J. ... ... *Trade Policy of Great Britain and Her Colonies Since* 1860 (1905).

Gadgil, D. R. ... ... *The Industrial Evolution of India in Recent Times* (1929).

Garvin, J. L. ... ... *The Economic Foundations of Peace; or, World-Partnership as the Truer Basis of the League of Nations* (1919).

Ghose, S. C. ... ... *Indian Railways and Indian Trade* (1911).
A Monograph on Indian Railway Rates (1918).

Gregory, T. E. ... ... *Foreign Exchange Before, During and After the War* (1927).

Hamilton, C. J. ... *Trade Relations Between England and India* (1919).

Hull, E. C. P. ... ... *England and the Suez Canal* (1883).

Hunter, Sir W. W. ... *India of the Queen, and other essays* (1903).
England's Work in India (1890).

Imperial Gazetteer, Vol. III (1908).

Indian Industrial Conferences, Papers read before (1906 onwards).

Jathar, G. B. and Beri, E. G. ... ... *Indian Economics*, 2 vols. (1928 and 1929).

Jevons, H. S. ... ... *Money, Banking and Exchange in India* (1922).

Jones, E. D. ... ... *Economic Crises* (1900).

Joshi, R. M. ... ... *Indian Export Trade; A critical analysis* (1922).

Kale, V. G. ... ... *Indian Economics* (1918).
Indian Industrial and Economic Problems (1917).

Kemmerer, E. W. ... *Modern Currency Reforms* (1916).

Keynes, J. M. ... ... *Indian Currency and Finance* (1913).
The Economic Consequences of the Peace (1919).
A Revision of the Treaty; being a Sequel to the Economic Consequences of the Peace (1922).
A Tract on Monetary Reform (1923).

Knowles, L. C. A. ... *The Industrial and Commercial Revolutions in Great Britain during the Nineteenth Century* (1927).
The Economic Development of the British Overseas Empire (1928).

Levi, L. ... ... *History of British Commerce*, 1763–1878 (1880).

Madon, B. F. ... ... *India's Exchange Problem*, 2 vols. (1925).

Mantoux, P. ... ... *The Industrial Revolution in the Eighteenth Century* (1928).

Marshall, A. ... ... *Industry and Trade: a study of industrial technique and business organization, etc.* (1913).
Money, Credit and Commerce (1923).

Modern India ... ... Ed. *Sir John Cumming* (1931).

Mongredien, A. ... *The Suez Canal Question* (1883).

Moreland, W. H. ... *India at the Death of Akbar* (1920).
From Akbar to Aurangzeb (1923).

Morison, Sir T. ... *The Economic Transition in India* (1911).
Mulhall, M. G. ... ... *Dictionary of Statistics* (1899).
Narain, B. ... ... *Indian Economic Life, Past and Present* (1929).
Essays on Indian Economic Problems (1922).
O'Conor, J. E. ... ... *Indian Price and Wage Level, 1861 to 1873, and 1874 to 1887* (1887).
Palgrave, Sir R. H. I. *Dictionary of Political Economy*, 3 vols. (1923–6).
Panandikar, S. G. ... *Some Aspects of the Economic Consequences of the War for India* (1921).
Parsad, I. D. ... ... *Some Aspects of Indian Foreign Trade, 1757–1893.* (Unpublished, Ph.D. Thesis, University of London, 1929.)
Phillips, J. ... ... *A General History of Inland Navigation* (1803).
Pigou, A. C. ... ... *Industrial Fluctuations* (1929).
Pillai, P. P. ... ... *Economic Conditions in India* (1925).
Pratt, E. A. ... ... *History of Inland Transport and Communication in England* (1912).
Ranade, M. G. ... ... *Essays on Indian Economics* (1906).
Rawlinson, H. G. ... *Intercourse Between India and the World from the Earliest Times to the Fall of Rome* (1916).
Remer, C. F. ... ... *The Foreign Trade of China* (1926).
Robertson, D. H. ... *A Study of Industrial Fluctuations* (1915).
Sanyal, N. ... ... *Development of Indian Railways* (1931).
Sargent, A. J. ... ... *Seaways of the Empire* (1930).
Anglo-Chinese Commerce and Diplomacy (Mainly in the Nineteenth Century) (1907).
See, C. S. ... ... *The Foreign Trade of China* (1919).
Shah, K. T. ... ... *Trade, Tariffs and Transport in India* (1923).
Shah, N. J. ... ... *History of Indian Tariffs* (1924).
Shaw, W. A. ... ... *Currency, Credit and the Exchange during the Great War and Since 1914* (1927).
Shirras, G. F. ... ... *Indian Finance and Banking* (1920).
Sinha, H. ... ... *Early European Banking in India* (1927).
Sinha, J. C. ... ... *Economic Annals of Bengal* (1927).
Smart, W. ... ... *Economic Annals of the Nineteenth Century, 1801–1820* (1910).
Economic Annals of the Nineteenth Century, 1821–1830 (1917).
Smith, J. R. ... ... *Influence of the Great War upon Shipping* (1919).
Sprague, O. M. W. ... *History of Crises under the National Banking System* (1910).
Strachey, Sir John and Lt.-Gen. Richard ... *The Finance and Public Works of India* (1882).
Taussig, F. W. ... *International Trade* (1927).
Selected Readings in International Trade and Tariff Problems (1921).
The Tariff History of the United States (1931).
Thomas, P. A. ... ... *Mercantilism and the East India Trade* (1926).
Tozer, H. J. ... ... *British India and its Trade* (1902).
Vakil, C. N. and Muranjan, S. K. ... ... *Currency and Prices in India* (1927).
Wadia, P. A. and Joshi, G. N.... ... ... *The Wealth of India* (1925).
Walker, F. A. ... ... *International Bimetallism* (1896).
Webb, A. ... ... *The New Dictionary of Statistics.* A Complement to the Fourth Edition of Mulhall's Dictionary of Statistics (1911).

Usher, A. P. ... ... *An Introduction to the Industrial History of England* (1921).
Uyehara, S. ... ... *The Industry and Trade of Japan* (1926).
Yamasaki, K. and Ogawa, G. ... ... *The Effect of the World War upon the Commerce and Industry of Japan* (1929).

B.—OFFICIAL PUBLICATIONS

Annual Statement of the Trade and Navigation of British India with Foreign Countries in the year ended 30th April, 1867, and each subsequent fiscal year.
Census of India, 1872 onwards.
Committee on Indian Exchange and Currency, 1920.
Vol. I. Report, Cmd. 527.
Vol. II. Minutes of Evidence, Cmd. 528.
Vol. III. Appendixes, Cmd. 529.
Cotton, C. W. E. Handbook of Commercial Information for India (1924).
Department of Overseas Trade: Reports on the Conditions and Prospects of British Trade in India, 1919–20 and 1921, 1921–2, 1923–4, 1924–5, 1926–7, 1927–8, 1929–30.
Head Commissioner of Paper Currency to the Secretary to the Government of India, Finance Department, Reports of the, 1890–1 to 1899–00.
Index Numbers of Indian Prices, 1861–1926.
Indian Currency Committee, 1893:
Report, C.7060.
Correspondence between the Government of India and the Secretary of State, C.7060–I.
Minutes of Evidence and Appendixes, C.7060—II.
Further Papers: Correspondence and Proceedings of the Government of India, C.7098.
Indian Currency Committee, 1898.
Part I. Minutes of Evidence, C.9037.
Part II. Minutes of Evidence, C.9222.
Appendixes, C.9376.
Report, C.9390.
Indian Fiscal Commission, 1921–2: Report.
Indian Foodstuffs Commissioner, Report of the Operations of the, 1919.
Indian Industrial Commission, 1916–8: Report.
Indian Munitions Board: Industrial Handbook (1919).
Indian Road Development Committee, 1927–8: Report.
Indian Tariff Board:
Report regarding the Grant of Protection to the Steel Industry, 1924.
Report regarding the Increase of Duties on Steel, 1924.
Report regarding the Grant of Supplementary Protection to the Steel Industry, September, 1925.
Report of the Statutory Enquiry into the Steel Industry, 1927.
Report regarding the Grant of Protection to the Coal Industry, 1926.
Report on Cotton Textile Industry, 1927.
(Vol. I) and Vol. II containing Evidences of the Bombay, Ahmedabad and Baroda Millowners' Associations.
K. L. Datta: Report on the Enquiry into the Rise of Prices in India, 1914 (5 vols.).

League of Nations: The World Economic Conference, Final Report, May, 1927. The Course and Phases of the World Economic Depression (1931).
Legislative Assembly Debates and Proceedings of the Governor-General's Councils.
Moral and Material Progress of India.
Annual Reports, 1860–1, and subsequent years.
Decennial Reports, 1872–3 onwards.
O'Conor, J. E.: Prices and Wages in India (1886).
Prices and Wages in India; Annual from 1861 to 1921.
Public Works Commissioners, Madras: Report (1852).
Review of Trade for India, 1873-4 and each subsequent year.
Royal Commission on Agriculture in India, 1928: Report, Cmd. 3132.
Royal Commission on Gold and Silver, 1888.
First Report with evidences and appendixes, C.5099.
Second Report with evidences and appendixes, C.5248.
Final Report, C.5512.
Royal Commission on Indian Finance and Currency, 1913.
Interim Report, cd. 7068.
Evidence, Vol. I, cd. 7069.
Appendixes to the Interim Report, Vol. I, cd. 7070.
Appendixes to the Interim Report, Vol. II, cd. 7071.
Final Report, cd. 7236.
Evidence, Vol. II, cd. 7237.
Appendixes to the Final Report, cd. 7238.
Royal Commission on Indian Currency and Finance, 1926; cmd. 2687.
Vol. I. Report.
Vol. II. Appendixes.
Vol. III. Appendixes.
Vol. IV. Minutes of Evidence taken in India.
Vol. V. Minutes of Evidence taken in London.
Statistical Abstract Relating to British India (Annual).
Statistical Abstract for the Principal and other Foreign Countries (Annual).
Statistical Abstract for the United Kingdom (Annual).

C.—PERIODICALS

Asiatic Review.
Bombay Labour Gazette.
Bulletins of the Federal Reserve Board.
Calcutta Review.
Capital (Calcutta).
Economic Journal.
Indian Journal of Economics.
Indian Trade Journal (with Supplements).
International Review of Agriculture.
Journal of Political Economy.
Journal of the Royal Society of Arts.
Quarterly Journal of Economics.
Statesman (Calcutta).
Times of India (Bombay).

INDEX

D

E

J

T

V

W

Y